

**CASE**

**NUMBER:**

99-512

Q12. a. List all rate case expenses incurred to date in this proceeding.

RESPONSE: Damon R. Talley, P.S.C. - \$12,000.00.

b. Provide detailed invoices for each expense listed above.

RESPONSE: See attached invoice dated July 31, 2000 from Damon R. Talley, P.S.C.

c. Beginning on August 1, 2000, and for each month thereafter until the completion of this case, provide an updated report of all rate case expenses and provide detail invoices for all expenses for which an invoice has not been previously provided.

RESPONSE: The District will provide this information.

WITNESS: Rebecca Wright, MCWD  
Damon R. Talley, Attorney

**DAMON R. TALLEY, P.S.C.**

ATTORNEY AT LAW  
P.O. BOX 150  
112 N. LINCOLN BLVD.  
HODGENVILLE, KENTUCKY 42748

TELEPHONE (502) 358-3187  
FAX (502) 358-9560

July 31, 2000

☐ MUHLENBERG COUNTY WATER DISTRICT  
P. O. BOX 348  
☐ GREENVILLE, KENTUCKY 42345

FOR PROFESSIONAL SERVICES

Re: PSC CASE NO. 99-512

LEGAL SERVICES RENDERED ON BEHALF OF WATER DISTRICT IN CONNECTION WITH OBTAINING RATE INCREASE, INCLUDING PREPARATION OF BILLING ANALYSIS, REVENUE REQUIREMENTS, PROJECTED REVENUES FROM PROPOSED RATES, PSC APPLICATION, VARIOUS OTHER EXHIBITS, AND NUMEROUS OTHER PLEADINGS AND DOCUMENTS.

**\$12,000.00**

*"A Lawyer's time and advice are his stock in trade." A. Lincoln*

EIN #61-1101970

Q13. Provide all contracts and agreements (e.g., purchased water contracts, leases, rental agreements) under which Muhlenberg District incurred costs of \$1,000 or more during the test period.

RESPONSE: See the attached Water Purchase Contract between the City of Central City (Seller) and the District (Purchaser).

WITNESS: Rebecca Wright, Office Manager, Bookkeeper, MCWD

WATER PURCHASE CONTRACT

5E

This contract for the sale and purchase of water is entered into as of the 9th day of September,  
19 81, between the City of Central City  
Central City, Kentucky  
(Address)

hereinafter referred to as the "Seller" and the Muhlenberg County Water District  
Post Office Box 348, Greenville, Kentucky 42345  
(Address)

hereinafter referred to as the "Purchaser",

WITNESSETH:

Whereas, the Purchaser is organized and established under the provisions of Kentucky Revised Statutes of the  
Code of Chapter 74 and 106, for the purpose of constructing and operating a water supply distribution  
system serving water users within the area described in plans now on file in the office of the Purchaser and to accomplish  
this purpose, the Purchaser will require a supply of treated water, and

Whereas, the Seller owns and operates a water supply distribution system with a capacity currently capable of serving the  
present customers of the Seller's system and the estimated number of water users to be served by the said Purchaser as shown  
in the plans of the system now on file in the office of the Purchaser, and

Whereas, by ordinance No. 81-20 enacted on the 9th day  
of September, 19 81, by the Seller, the sale of water to the Purchaser in accordance  
with the provisions of the said ordinance No. 81-20 was approved, and the execution of this contract  
carrying out the said ordinance No. 81-20 by the Mayor  
and attested by the Secretary, was duly authorized, and  
Clerk

Whereas, by Resolution of the Commission  
of the Purchaser, enacted on the 9th day of September, 19 81,  
the purchase of water from the Seller in accordance with the terms set forth in the said ordinance No. 81-20  
was approved, and the execution of this contract by the Chairman, and  
attested by the Secretary was duly authorized;

Now, therefore, in consideration of the foregoing and the mutual agreements hereinafter set forth,

A. The Seller Agrees:

1. (Quality and Quantity) To furnish the Purchaser at the point of delivery hereinafter specified, during the term of  
this contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the \_\_\_\_\_  
Commonwealth of Kentucky

in such quantity as may be required by the Purchaser not to exceed fifty-seven million (57,000,000)  
gallons per month.

2. (Point of Delivery and Pressure) That water will be furnished at a reasonably constant pressure calculated at see attached from an existing see attached inch main supply at a point located see attached

If a greater pressure than that normally available at the point of delivery is required by the Purchaser, the cost of providing such greater pressure shall be borne by the Purchaser. Emergency failures of pressure or supply due to main supply line breaks, power failure, flood, fire and use of water to fight fire, earthquake or other catastrophe shall excuse the Seller from this provision for such reasonable period of time as may be necessary to restore service.

3. (Metering Equipment) To furnish, install, operate, and maintain at its own expense at point of delivery, the necessary metering equipment, including a meter house or pit, and required devices of standard type for properly measuring the quantity of water delivered to the Purchaser and to calibrate such metering equipment whenever requested by the Purchaser but not more frequently than once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. The previous readings of any meter disclosed by test to be inaccurate

shall be corrected for the three (3) months previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless Seller

and Purchaser shall agree upon a different amount. The metering equipment shall be read on last working day of month. An appropriate official of the Purchaser at all reasonable times shall have access to the meter for the purpose of verifying its readings.

4. (Billing Procedure) To furnish the Purchaser at the above address not later than the tenth day of each month, with an itemized statement of the amount of water furnished the Purchaser during the preceding month.

**B. The Purchaser Agrees:**

1. (Rates and Payment Date) To pay the Seller, not later than the tenth day of each month,\* for water delivered in accordance with the following schedule of rates:

- a. \$ 0.989 \*\* for the first 1,000 gallons, which amount shall also be the minimum rate per month.
- b. \$ 0.989 \*\* cents per 1000 gallons for water in excess of 1,000 gallons but less than \_\_\_\_\_ gallons.
- c. \$ 0.989 \*\* cents per 1000 gallons for water in excess of 1,000 gallons.

\* following the month of billing

\*\* This rate was calculated on the basis of the sellers incurring the bonded indebtedness of \$2,900,000.00 for the expansion of its water treatment plant and the installation of certain new transmission lines, and in the event the bonded indebtedness which seller actually incurs shall be greater or lesser than \$2,900,000 then this water rate shall be adjusted up or down, as the case may be, to provide for the amortization by this purchase of its pre-determined portion (28/48ths) of the bonded indebtedness actually incurred.

2. (Connection Fee) To pay as an agreed cost, a connection fee to connect the Seller's system with the system of the Purchaser, the sum of N/A dollars which shall cover any and all costs of the Seller for installation of the metering equipment and N/A

C. It is further mutually agreed between the Seller and the Purchaser as follows:

1. (Term of Contract) That this contract shall extend for a term of forty (40) years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or extended for such term, or terms, as may be agreed upon by the Seller and Purchaser.

2. (Delivery of Water) That N/A days prior to the estimated date of completion of construction of the Purchaser's water supply distribution system, the Purchaser will notify the Seller in writing the date for the initial delivery of water.

3. (Water for Testing) When requested by the Purchaser the Seller will make available to the contractor at the point of delivery, or other point reasonably close thereto, water sufficient for testing, flushing, and trench filling the system of the Purchaser during construction, irrespective of whether the metering equipment has been installed at that time, at a flat charge of \$0.989 per 1000 which will be paid by the contractor or, on his failure to pay, by the Purchaser.

4. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's consumers shall be reduced or diminished in the same ratio or proportion as the supply to Seller's consumers is reduced or diminished.

5. (Modification of Contract) That the provisions of this contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification at the end of every three (3)\* (see attached) year period. Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance hereunder, but such costs shall not include increased capitalization of the Seller's system. Other provisions of this contract may be modified or altered by mutual agreement.

6. (Regulatory Agencies) That this contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

7. (Miscellaneous) That the construction of the water supply distribution system by the Purchaser is being financed by a loan made or insured by, and/or a grant from, the United States of America, acting through the Farmers Home Administration of the United States Department of Agriculture, and the provisions hereof pertaining to the undertakings of the Purchaser are conditioned upon the approval, in writing, of the State Director of the Farmers Home Administration.

8. (Successor to the Purchaser) That in the event of any occurrence rendering the Purchaser incapable of performing under this contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Purchaser hereunder.

9. It is contemplated that Seller will cause to be constructed an addition to its water treatment plant in order to enable it to perform its obligations hereunder. This agreement shall become effective as to the water rate herein specified upon completion of the contemplated addition Seller's water plant and acceptance thereof by Seller, at which time the existing Water Purchase Contract between the parties shall terminate and be of no further force and effect.

(Pledge of Contract) 10. It is agreed and understood that seller has and does hereby pledge this contract and any and all rights of the seller hereunder to the Farmers Home Administration of the United States Dept. of Agriculture as partial security for a loan made by the latter to the seller.

(Reserve) 11. It is mutually agreed that the seller has some existing reserve in its water treatment plant and that there will be created some additional reserve over and above the 48,000,000 gallons allocated from the additional water to be produced by the addition to seller's plant. It is mutually agreed that as to any water produced in excess of 97,000,000 gallons per month following the completion of the addition to seller's plant, one-half (1/2) of any such excess shall be deemed reserve of the seller attributable to its existing plant and purchaser shall be entitled to receive its proportionate share (28/48ths) of the other one-half (1/2).

In witness whereof, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed in triplicate counterparts, each of which shall constitute an original.

Seller:

City of Central City KY

By Jno. A. Cole

Title Mayor

Attest:

William Eades Tucker  
Secretary  
City Clerk

Purchaser: Muhlenberg Co. Water District

By Roy Key

Title Chairman

Attest:

\_\_\_\_\_  
Secretary

This contract is approved on behalf of the Farmers Home Administration this 9th day of September, 19 81.

By Robert W. Letton

Title Community Programs Specialist

1. An existing metering point near the residence of Roland Morris on U.S. Highway 431 at a pressure sufficient to provide water at a peak instantaneous rate of 350 gallons per minute.
  2. An existing metering point on West State Route 70 at a pressure sufficient to supply at a peak instantaneous rate of 250 gallons per minute.
  3. At such additional metering points and at such rates of delivery as the parties may mutually agree upon from time to time, but at no additional cost or expense to Seller.
- \* The initial three (3) year period shall commence on the date this contract is signed by the Seller and the Purchaser.

*JML*  
*RR*

ADDENDUM

The Contract between the City of Central City and Muhlenberg County Water District, dated September 9, 1981, is hereby amended, by mutual agreement of the parties, as follows:

1. The rates of \$0.989 per 1,000 gallons, as provided for in Section B. Paragraph 1, subparagraphs a., b., and c., are hereby reduced to \$0.891 per 1,000 gallons of water;
2. All other provisions remain in full force and effect.

Made and entered into on this the 18 day of May, 1982.

Seller:

CITY OF CENTRAL CITY, KENTUCKY

By: John A. Lile  
JOHN A. LILE, Mayor

ATTEST:

Mildred E. Tucker  
MILDRED E. TUCKER, City Clerk

Buyer:

MUHLENBERG COUNTY WATER DISTRICT

By: Ray Key

ATTEST:

Neville H. Post

# *Municipal Water and Sewer System*

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208 North 1st Street • P. O. Box 430 • Central City, KY 42330 • Phone (502) 754-3066 • Fax (502) 754-9711

August 29, 1996

Muhlenberg County Water District  
P. O. Box 348  
Greenville, Kentucky 42345

and

Muhlenberg County Water District #3  
P. O. Box 67  
Bremen, Kentucky 42325

Gentlemen:

The new water rate for your districts will be effective  
September 9, 1996.

The rate will be for the contract as follows:

1st year	\$1.15	per thousand gallons
2nd year	1.20175	per thousand gallons
3rd year	1.2558	per thousand gallons

Very truly yours,

MUNICIPAL WATER & SEWER COMMISSION



Margaret Ann Williams  
Commission Secretary

Q14. Provide Muhlenberg District's Audit Report for 1999, including all workpapers and year-end adjusting journal entries.

RESPONSE: The Audit Report for 1999 and the year-end adjusting journal entries are attached.

WITNESS: Charles R. Lewis, C.P.A.

MUHLENBERG COUNTY WATER DISTRICT

ANNUAL FINANCIAL REPORT AND  
SUPPLEMENTARY DATA

Years Ended December 31, 1999 and 1998

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# CHARLES R. LEWIS

CERTIFIED PUBLIC ACCOUNTANT

123 S. MAIN ST., P. O. BOX 815  
GREENVILLE, KY 42345  
TELEPHONE (270) 338-1709  
FAX (270) 338-7200

## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Muhlenberg County Water District  
Greenville, Kentucky

I have audited the accompanying financial statements of the Muhlenberg County Water District as of and for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of Muhlenberg County Water District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and GOVERNMENT AUDIT STANDARDS issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muhlenberg County Water District as of December 31, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with GOVERNMENT AUDITING STANDARDS, I have also issued a report dated May 19, 2000 on my considerations of Muhlenberg County Water District's internal control structure and a report dated May 19, 2000 on its compliance with laws and regulations.

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed in the table of contents (on pages 17 to 25) are required for purposes of additional analysis and are not a required part of the financial statements of the Muhlenberg County Water District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Charles R. Lewis  
Certified Public Accountant

Greenville, Kentucky  
May 19, 2000

MUHLENBERG COUNTY WATER DISTRICT  
 BALANCE SHEETS  
 December 31, 1999 and 1998

	1999	1998
	-----	-----
<u>ASSETS</u>		
Current Assets		
Cash	\$ 16,121	\$ 37,525
Accounts Receivable, Net of Allowance for Uncollectible Amounts (Note 1)	22,593	24,140
Inventory - At Cost (Note 1)	34,523	33,168
Prepaid Expenses - Insurance (Note 1)	1,444	10,150
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	74,681	104,983
	<hr/>	<hr/>
Restricted Assets		
Bond and Interest Fund (Notes 1, 3)	225,278	210,620
Depreciation Fund (Note 1)	142,375	344,182
Deposit Fund (Note 1)	76,841	70,780
	<hr/>	<hr/>
TOTAL RESTRICTED ASSETS	444,494	625,582
	<hr/>	<hr/>
Property, Plant, and Equipment (Note 2)		
Land	27,152	27,152
Buildings and Office	651,804	602,332
Water System	8,538,274	8,499,071
Office Furniture and Equipment	153,566	138,408
Vehicles and Equipment	565,278	474,825
	<hr/>	<hr/>
	9,936,074	9,741,788
Less Accumulated Depreciation	3,477,547	3,200,622
	<hr/>	<hr/>
NET PROPERTY, PLANT AND EQUIPMENT	6,458,527	6,541,166
	<hr/>	<hr/>
Other Assets		
Unamortized Debt Discount; Issuance Costs (Note 1)	84,844	89,077
	<hr/>	<hr/>
NET OTHER ASSETS	84,844	89,077
	<hr/>	<hr/>
TOTAL ASSETS	\$ 7,062,546	\$ 7,360,808
	=====	=====

The accompanying notes are an integral part of these statements.

MUHLENBERG COUNTY WATER DISTRICT  
BALANCE SHEETS  
December 31, 1999 and 1998

	1999 -----	1998 -----
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities (Payable from Current Assets)		
Trade Accounts Payable	\$ 72,010	\$ 78,461
Customer Deposits	92,812	86,696
	<hr/>	<hr/>
TOTAL	164,822	165,157
	<hr/>	<hr/>
Current Liabilities (Payable from Restricted Assets)		
Current Portion of Bond Obligations	161,000	149,000
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	325,822	314,157
	<hr/>	<hr/>
Long-Term Liabilities - (Note 3)		
Bonds Payable (Net of Current Portion)	3,836,000	3,997,000
	<hr/>	<hr/>
TOTAL LIABILITIES	4,161,822	4,311,157
	<hr/>	<hr/>
<u>FUND EQUITY</u>		
Total Contributed Capital (Note 1)	3,380,275	3,305,067
Fund Balance <Deficit>	< 479,551>	< 255,416>
	<hr/>	<hr/>
TOTAL FUND EQUITY	2,900,724	3,049,651
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND EQUITY	\$ 7,062,546	\$ 7,360,808
	=====	=====

The accompanying notes are an integral part of these statements.

MUHLENBERG COUNTY WATER DISTRICT  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
 For The Years Ended December 31, 1999 and 1998

	1999	1998
	-----	-----
<u>OPERATING REVENUES</u>		
Water Sales	\$ 1,869,566	\$ 1,784,014
Other Operating Revenues	66,220	56,114
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	1,935,786	1,840,128
	<hr/>	<hr/>
<u>OPERATING EXPENSES</u>		
Source of Supply Expenses	650,364	606,928
Pumping Expenses	51,492	50,634
Water Treatment Expenses	9,631	8,824
Transmission and Distribution Expenses	389,158	322,884
Customer Accounts Expenses	129,124	125,376
Administrative and General Expenses	401,310	369,954
Depreciation (Note 1)	286,932	268,930
Taxes	48,446	43,540
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	1,966,457	1,797,070
	<hr/>	<hr/>
OPERATING INCOME <LOSS>	< 30,671>	43,058
	<hr/>	<hr/>
<u>NONOPERATING REVENUES &lt;EXPENSES&gt;</u>		
Gain on Sale of Equipment	-0-	5,103
Interest Revenue	27,291	35,566
Interest on Long Term Debt	< 215,422>	< 221,915>
Other Interest	< 1,100>	< 970>
Amortization of Debt Discount	< 4,233>	< 4,233>
	<hr/>	<hr/>
TOTAL NONOPERATING REVENUES <EXPENSES>	< 193,464>	< 186,449>
	<hr/>	<hr/>
NET REVENUES <LOSS>	< 224,135>	< 143,391>
	<hr/>	<hr/>
FUND BALANCE - January 1, <Deficit>	< 255,416>	< 112,025>
	<hr/>	<hr/>
FUND BALANCE - December 31, <Deficit>	\$< 479,551>	\$< 255,416>
	=====	=====

The accompanying notes are an integral part of these statements.

MOHLENBERG COUNTY WATER DISTRICT  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31, 1999 and 1998

	1999	1998
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,937,333	\$ 1,842,634
Cash payments for goods and services	1,674,850	<1,542,981>
	-----	-----
Net Cash Provided by Operating Activities	262,483	299,653
	-----	-----
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Sale of Equipment	-0-	5,103
Acquisition of Fixed Assets	< 208,068>	< 197,117>
Increase in Customer Deposits	6,116	7,966
Retirement of Bonds Payable	< 149,000>	< 142,000>
Interest Expense	< 216,522>	< 222,885>
Construction Contributions, Grants	75,208	66,193
	-----	-----
Net Cash <Used> for Capital and Related Financing Activities	< 492,266>	< 482,740>
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	27,291	35,566
	-----	-----
Net Cash Provided by Investing Activities:	27,291	35,566
	-----	-----
NET INCREASE <DECREASE> IN CASH	< 202,492>	< 147,521>
CASH AND RESTRICTED CASH, January 1	663,107	810,628
	-----	-----
CASH AND RESTRICTED CASH, December 31	\$ 460,615	\$ 663,107
	=====	=====

The accompanying notes are an integral part of these statements.

MUHLENBERG COUNTY WATER DISTRICT  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31, 1999 and 1998

	1999	1998
	-----	-----
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income <Loss>	\$ < 30,671>	\$ 43,058
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Depreciation	286,932	268,930
CHANGES IN ASSETS AND LIABILITIES		
<Increase> Decrease in Accounts Receivable	1,547	2,506
<Increase> Decrease in Inventory	< 1,355>	< 4,494>
<Increase> Decrease in Prepaid Expense	8,706	< 790>
Increase <Decrease> in Accounts Payable	< 2,676>	< 9,557>
	-----	-----
TOTAL ADJUSTMENTS	293,154	256,595
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES:	\$ 262,483	\$ 299,653
	=====	=====

The accompanying notes are an integral part of these statements.

MUHLENBERG COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999

Note 1. Summary of Significant Accounting Policies

PROPRIETARY FUNDS

The Muhlenberg County Water District was created by the Muhlenberg County Fiscal Court in July 1962. In December 1967, the District began water services to the developed areas of the county.

The following is a summary of significant accounting policies:

The Waterworks Fund is used to account for the operations of the Water Utility Enterprise Fund. Enterprise Funds are used to account for operations (1) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District is composed of three commissioners who are appointed by the Muhlenberg County Judge Executive.

FIXED ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Utility Plant	50 Years
Machinery and Equipment	3-10 Years

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

MUHLENBERG COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999

Note 1. Summary of Significant Accounting Policies (Continued)

BASIS OF ACCOUNTING

Basis of Accounting refers to when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with the Public Service Commission and the Department of Rural Development guidelines, the District submits a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. (See Note 8 for disclosures of budget to actual results for the District).
- 2) The District is required to submit a budget to RD for each fiscal year as stipulated in the bond agreement. For 1999, Muhlenberg County Water District satisfied this requirement.

The District adopted a fixed dollar budget for the year ended December 31, 1999. Flexible budgets prepared for several levels of possible activity are better for proprietary fund planning, control, and evaluation purposes than are fixed budgets. For this reason, actual comparison of the fixed operating budget adopted by the District and actual operating revenues and expenses are not shown in this financial statement.

INVESTMENTS

At year end, the bank balances of the District (checking and savings) were \$460,265. Of those balances, \$100,000 was covered by federal depository insurance, \$360,265 was covered by collateral pledged by the bank. First State Bank of Greenville, Kentucky, has pledged the following instruments in safekeeping at First Tennessee Bank, Nashville Tennessee:

MUHLENBERG COUNTY WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 1999

Note 1. Summary of Significant Accounting Policies (Continued)

INVESTMENTS

Instrument	Rate	Amount	Maturity	Market Value
-----	-----	-----	-----	-----
FNMA	6.57%	\$ 500,403	02-14-08	\$ 475,710
GNMA POOL	7.0%	528,466	07-01-28	510,969
FNMA	6.56%	200,000	03-24-08	190,064
		-----		-----
TOTAL		\$ 1,228,869		\$ 1,176,743
		=====		=====

RESTRICTED ASSETS

These assets consist of cash and short-term investments restricted for water works debt service and depreciation fund expenditures and customer deposit escrows.

INVENTORIES

Inventory held by the Water District is priced at the lower of cost (first in, first out) or market. Inventory acquisitions in the General fund are recorded in inventory accounts initially and charged as expenditures when used. Minimum amounts of inventory are not maintained, therefore, equity reserves for inventory have not been established. The cost value of such inventories has been presented on a cost basis.

PREPAID INSURANCE

Prepaid insurance represents the amount of unexpired insurance which the District had previously paid for at the balance sheet date.

ACCOUNTS RECEIVABLE

Bad debts are written off the books using the specific charge-off method; therefore, no provision for bad debts is reflected. For 1999 and 1998 \$7,207 and \$6,378 have been written off as bad debts and reflected in the Statement of Revenues, Expenses, and Changes in Fund Balances.

CONTRIBUTIONS IN AID OF CONSTRUCTION

Amounts received from the State, other governmental agencies, or individuals (tap-on) fees for construction of District-owned facilities are recorded as contributions in aid of construction.

MUHLENBERG COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999

Note 1. Summary of Significant Accounting Policies (Continued)

COMPARATIVE DATA

Comparative data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations.

GENERAL OBLIGATION ENTERPRISE BONDS

1966 BOND ISSUE

An RECD bond resolution dated March 1, 1966, authorized issuance of \$1,126,000 of waterworks revenue bonds maturing in annual installments through 2006. Interest is payable semi-annually on January 1 and July 1, at 3.75% per annum and principal is payable annually on January 1. (See Note 3 for bond schedule).

To comply with the bond resolution, the Water District must set aside in a "Bond and Interest Sinking Fund" enough monies to pay the bonds and interest as they become due. For 1999, the District satisfied this requirement.

The bond resolution also calls for the creation of a "Depreciation Fund" for the purpose of paying the cost of extraordinary maintenance, repairs and replacements not included in the annual budget of current expenses and monthly deposits of \$500 to be transferred from any remaining income until \$60,000 is accumulated. Since the 1966 Bonds were issued on a parity with the 1978 bonds, the monthly deposits are included in the 1978 Bond issue amounts.

Withdrawals from the Depreciation Fund can be authorized by the commissioners for the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements not included in the annual budget of current expenses.

1978 BOND ISSUE

An RECD bond resolution dated February 2, 1978, authorized issuance of \$2,048,000 of waterworks revenue bonds maturing in annual installments beginning January 1, 1981 through 2018. Interest is payable semi-annually on January 1 and July 1 at 5% per annum and principal is payable annually on January 1. The 1978 bonds are issued on a parity with the 1966 bonds.

To comply with the bond resolution, the Water District must set aside in a "Bond and Interest Sinking Fund" enough monies to pay the bonds and interest as they become due. For 1999, the District satisfied this requirement.

MUHLENBERG COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999

Note 1. Summary of Significant Accounting Policies (Continued)

GENERAL OBLIGATION ENTERPRISE BONDS (Continued)

1978 BOND ISSUE

The Bond Resolution also calls for the creation of a "Depreciation Fund" for the purpose of paying the cost of extraordinary maintenance, repairs, and replacements not included in the annual budget of current expenses. For 1999, the District made the required transfers.

Withdrawals from the Depreciation Fund can be authorized by the commissioners for the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements not included in the annual budget of current expenses.

1995 BOND ISSUE

A bond resolution dated October 1, 1995, authorized issuance of \$2,355,000 of refunding revenue bonds maturing in annual installments through 2021. Interest is paid semi-annually on January 1 and July 1, from 5.4% to 5.6% per annum and principal is payable annually on January 1. Bonds maturing on or after January 1, 2006, are subject to redemption at the option of the District.

To comply with the Bond Resolution, the Water District must set aside in a "Bond and Interest Sinking Fund" enough monies to pay the bonds and interest as they become due on the 1966 Bonds, 1978 Bonds and 1995 Bonds. A monthly deposit of 1/6 the next succeeding interest installment and 1/12 of the next succeeding principal installment of all three issues is required. Also a depreciation fund must be maintained with monthly deposits of \$1,020 or until a minimum balance of \$122,400 is reached. The District satisfied all these requirements during 1999.

As shown on the District's balance sheet, the discount and issuance costs of this issue are being amortized over a 25 year period utilizing a straight-line method.

This issue was an insured public issue administered by J.J.B. Hilliard, W. L. Lyons, Inc. with Old National Trust Company acting as paying agent and bond registrar.

Note 2. Fixed Assets

A summary of changes in the District's property, plant and equipment at December 31, 1999, follows. These amounts are at cost.

MUHLENBERG COUNTY WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 1999

Note 2. Fixed Assets (Continued)

	Balance 1/01/99	Additions	Deletions	Balance 12/31/99
Land	\$ 27,152	\$ -0-	\$ -0-	\$ 27,152
Buildings	602,332	49,472	-0-	651,804
Water System	8,499,071	39,203	-0-	8,538,274
Off Furn & Equip	138,408	15,158	-0-	153,566
Vehicles & Eq.	474,825	100,460	10,007	565,278
<b>TOTAL</b>	<b>\$9,741,788</b>	<b>\$ 204,293</b>	<b>\$ 10,007</b>	<b>\$9,936,074</b>

Note 3. Changes in Long Term Debt

The following is a summary of Bonds Payable of the District for the year ended December 31, 1999.

	Payable at 1/01/99	Additions	Reductions	Balance 12/31/99
1995 Issue	\$2,210,000	\$ -0-	\$ 55,000	\$2,155,000
1966 Bond Issue	350,000	-0-	40,000	310,000
1978 Bond Issue	1,467,000	-0-	48,000	1,419,000
KACO Leasing Trust	119,000	-0-	6,000	113,000
<b>TOTAL</b>	<b>\$4,146,000</b>	<b>\$ -0-</b>	<b>\$ 149,000</b>	<b>\$3,997,000</b>
Less Current Portion				161,000
				<b>\$3,836,000</b>
				=====

All long-term debt has been retired on schedule. The following is a schedule of total debt retirement for each issue:

Series of 1966

Year Ending December 31	Bonds Due	Interest Due	Total
2000	50,000	10,687	60,687
2001	50,000	8,813	58,813
2002	50,000	6,938	56,938
2003	50,000	5,063	55,063
2004	50,000	3,188	53,188
2005	60,000	1,125	61,125
	<b>\$ 310,000</b>	<b>\$ 35,814</b>	<b>\$ 345,814</b>
	=====	=====	=====

MUHLENBERG COUNTY WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 1999

Note 3. Changes in Long Term Debt (Continued)

Series of 1978

Year Ending December 31	Bonds Due	Interest Due	Total
-----	-----	-----	-----
2000	50,000	69,700	119,700
2001	53,000	67,125	120,125
2002	56,000	64,400	120,400
2003	58,000	61,550	119,550
2004	61,000	58,575	119,575
2005	64,000	55,450	119,450
2006	68,000	52,150	120,150
2007	71,000	48,675	119,675
2008	75,000	45,025	120,025
2009	78,000	41,200	119,200
2010	82,000	37,200	119,200
2011	86,000	33,000	119,000
2012	91,000	28,575	119,575
2013	95,000	23,925	118,925
2014	100,000	19,050	119,050
2015	105,000	13,925	118,925
2016	110,000	8,550	118,550
2017	116,000	2,900	118,900
	-----	-----	-----
	\$1,419,000	\$ 730,975	\$2,149,975
	=====	=====	=====

Series of 1995

Year Ending December 31	Bonds Due	Interest Due	Total
-----	-----	-----	-----
2000	55,000	119,650	174,650
2001	60,000	116,625	176,625
2002	60,000	113,325	173,325
2003	65,000	110,025	175,025
2004	70,000	106,450	176,450
2005	75,000	102,600	177,600
2006	80,000	98,475	178,475
2007	85,000	94,075	179,075
2008	85,000	89,400	174,400
2009	90,000	84,725	174,725
2010	95,000	79,775	174,775
2011	100,000	74,550	174,550
2012	110,000	69,050	179,050
2013	115,000	63,000	178,000
2014	120,000	56,560	176,560
2015	130,000	49,840	179,840

MOHLENBERG COUNTY WATER DISTRICT  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 1999

Note 3. Changes in Long Term Debt (Continued)

Series of 1995

Year Ending December 31	Bonds Due	Interest Due	Total
2016	\$ 135,000	\$ 42,560	\$ 177,560
2017	145,000	35,000	180,000
2018	150,000	26,880	176,880
2019	160,000	18,480	178,480
2020	170,000	9,520	179,520
	-----	-----	-----
	\$2,155,000	\$1,560,565	\$3,715,565
	=====	=====	=====

During 1992, the District entered into a phase of construction to service an area known as "Forest Oak." The District received a Community Block Grant in the amount of \$153,770 and borrowed \$147,000 from the Kentucky Association of Counties Leasing Trust. These monies were remitted through the Muhlenberg County Fiscal Court. The interest rate on this obligation is 5.55% over a 20 year term. The payment schedule is as follows:

Year	Principal	Note Interest	Total Payment
2000	6,000	5,988	11,988
2001	7,000	5,603	12,603
2002	7,000	5,213	12,213
2003	7,000	4,823	11,823
2004	8,000	4,382	12,382
Years Thereafter	78,000	30,382	108,382
	-----	-----	-----
Totals	\$ 113,000	\$ 56,391	\$ 169,391
	=====	=====	=====

Note 4. Water Contract

The District has a long-term contract with Central City Municipal Water and Sewer for the purchase of treated water. The contract for water was amended September 9, 1981, and is for a period of 50 years. There are no minimum payments required under the contracts except for actual delivery, and the rates are adjusted periodically.

Purchases of water by the District were \$650,364 and \$606,928 for 1999 and 1998.

MUHLENBERG COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999

Note 5. Litigation

Various claims and lawsuits are pending against the Water District. In the opinion of the District's Attorney, the potential loss on all claims will not be significant to the District's financial statements.

Note 6. Public Service Commission Regulations

The District is required to file with the Commission a report of its gross earnings or receipts derived from intra-state business for the preceding calendar year. The District satisfied this requirement.

The Water District also filed the 1999 Annual PSC Report as required.

Another PSC requirement is that all customer deposit refunds be paid with interest. This requirement was met.

Public Service Commission Regulations require that disbursements of the District be published in the newspaper. This requirement was not met.

Note 7. Retirement Plan

Plan Description

The District and covered employees contribute to the County Employers Retirement System (CERS), a cost-sharing multiple-employer defined benefit plan administered by the Board of Trustees of the Kentucky Retirement System

The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living adjustments are provided at the discretion of the State legislature. Kentucky Revised Statute Section 61-645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Kentucky Retirement Systems.

The CERS financial statements and other supplementary information are contained in the publicly available annual financial report of the Kentucky Retirement Systems. Copies of the report are sent to each participating employer as well as distributed to legislative personnel, state libraries and other interested parties. Copies may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

MUHLENBERG COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 1999

Note 7. Retirement Plan (Continued)

Funding Policy

Per Kentucky Revised Statute 61.565, normal contribution and past service contribution rates shall be determined by the Board of Trustees of the Kentucky Retirement Systems on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the year ended December 31, 1999, plan members were required to contribute 5% of their annual creditable compensation.

The District is required to contribute at an actuarially determined rate. The District was required to contribute 7.28% of each employee's creditable compensation for the year ended December 31, 1999. The District's contributions to CERS for the years ended December 31, 1999 and 1998 were \$38,792, and \$36,515 respectively.

Note 8. Risk Management

The District was exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District purchases commercial insurance for all risks of losses. Settlements resulting from these risks have not exceeded commercial insurance coverage in the current year. See the supplementary data for a detail of insurance coverage.

Note 9. Wholesale Water Supplier

The Muhlenberg County Water District sells water on a wholesale basis to the City of Drakesboro, Kentucky. A contract originally dated October, 1967 has been amended as of May, 1997 to extend this contract to October, 2047. The District has the authority by the Public Service Commission of Kentucky, to periodically adjust the rates charged to the City of Drakesboro. Total sales to the City of Drakesboro amounted to \$49,901 for 1999 and \$53,796 for 1998.

SUPPLEMENTARY DATA

MUHLENBERG COUNTY WATER DISTRICT  
REVENUES AND EXPENSES STATEMENT DETAIL  
For The Years Ended December 31, 1999 and 1998

	1999	1998
	-----	-----
<u>OPERATING REVENUES</u>		
Metered Water Sales	\$ 1,763,141	\$ 1,676,765
Other Sales of Water-Drakesboro, TVA	106,425	107,249
Miscellaneous Service Revenues	14,382	13,313
Other Water Revenues	10,992	4,217
Forfeited Discounts	40,846	38,584
	-----	-----
TOTAL OPERATING REVENUES	1,935,786	1,840,128
	-----	-----
<u>OPERATING EXPENSES</u>		
Source of Supply Expenses		
Purchased Water	650,364	606,928
	-----	-----
Pumping Expenses		
Power Purchased for Pumping	41,404	39,233
Operation Supplies and Expenses	2,427	406
Maintenance of Pumping Plant	7,661	10,995
	-----	-----
TOTAL PUMPING EXPENSES	51,492	50,634
	-----	-----
Water Treatment Expenses		
Chemicals and Analysis	9,631	8,824
	-----	-----
TOTAL WATER TREATMENT EXPENSES	9,631	8,824
	-----	-----
Transmission and Distribution Expenses		
Operation Labor	336,856	273,955
Operation Supplies	4,727	8,839
Maintenance of Dist. Standpipes	1,687	225
Maintenance of Mains	38,372	38,214
Maintenance of Meters/Hydrants	7,516	1,651
	-----	-----
TOTAL TRANS. AND DIST. EXPENSES	\$ 389,158	\$ 322,884
	-----	-----

See accompanying notes to financial statements.

MUHLENBERG COUNTY WATER DISTRICT  
 REVENUES AND EXPENSES STATEMENT DETAIL (Continued)  
 For the Years Ended December 31, 1999 and 1998

	1999	1998
	-----	-----
OPERATING EXPENSES (Continued)		
Customer Accounts Expenses		
Meter Reading Labor, Collections	\$ 105,452	\$ 106,509
Supplies and Expenses	16,465	12,489
Uncollectible Accounts	7,207	6,378
	-----	-----
TOTAL CUSTOMER ACCOUNTS EXPENSE	129,124	125,376
	-----	-----
Administrative and General Expenses		
Administrative and General Salaries	75,567	72,266
Office Supplies and Other Expenses	32,297	28,107
Outside Services Employed	12,841	13,561
Property Insurance, Workers Compensation	35,283	31,197
Injuries and Damages	1,033	1,303
Employee Pensions and Benefits	161,733	136,944
Regulatory Commission Expenses	3,053	3,363
Miscellaneous General Expenses	16,272	28,477
Transportation and Equipment Expense	32,729	29,439
Maintenance of General Plant	30,502	25,297
	-----	-----
TOTAL ADM. AND GENERAL EXPENSES	\$ 401,310	\$ 369,954
	-----	-----

See accompanying notes to financial statements.

MUHLENBERG COUNTY WATER DISTRICT  
SCHEDULE OF INSURANCE  
For the Year Ended December 31, 1999

Royal Insurance Company of America

Policy PVAE04276 - 6/26/99 to 6/26/2000

Fire and Lightning and extended coverage including vandalism and malicious mischief - \$500 deductible; 80% co-insurance - includes earthquake - \$50,000 mine subsidence

Office Building - \$250,500

Office Contents of Building - \$100,000

Garage Building - \$35,000

Garage Building Shop - \$50,000

Water Pump Station, Belton, - \$51,385

Water Pump Station, Lake Malone - \$48,275

Water Pump Station, Stephen Meadows #1 - \$49,460

Water Pump Station, Stephen Meadows #2 - \$55,600

Water Pump Station, Powderly - \$52,887

Water Pump Station, Central City - \$99,302

Water Pump Station, TVA - \$75,000

Water Pump Station, Luzerne Lake, Depoy - \$61,825

Water Pump Station, Nelson - \$50,000

Water Pump Station, Dunmor - \$55,000

Metal Water Tank - 50,000 gallon capacity, Belton - \$60,000

Metal Water Tank - 123,000 gallon cap., Lake Malone - \$133,000

Metal Water Tank - 70,000 gallon capacity, Weir - \$80,000

Metal Water Tank - 61,000 gallon capacity, Nelson - \$64,050

Metal Water Tank - 56,000 gallon capacity, Nebo - \$71,000

Metal Water Tank - 100,000 gallon capacity, Dunmor - \$100,000

Metal Water Tank - 500,000 gallon capacity, Powderly - \$310,000

Metal Water Tank - 250,000 gallon capacity, Depoy - \$235,000

Metal Water Tank - 250,000 gallon cap., Beech Creek - \$235,000

Metal Water Tank - 150,000 gallon capacity, Cleaton - \$160,000

Metal Water Tank - 200,000 gallon capacity, TVA - \$235,000

General Liability:

Bodily Injury and Property Damage - \$1,000,000 each occurrence and aggregate

Premises medical payments - \$5,000 each person

Fire Damage - \$100,000

Crime - \$ 10,000

Business Automobile:

Liability - \$1,000,000

Personal Injury Protection - \$10,000

Uninsured Motorist - \$60,000

Comprehensive - Actual Cash Value (\$100 Deductible)

Collision - Actual Cash Value (\$500 Deductible)

Contractor's Equipment Floater - Broad Form:

2 Wheel Tilt Bed Trailer - \$1,000 (\$1,000 Deductible)

1998 Ditch Witch - \$58,251 (\$1,000 Deductible)

1989 Ditch Witch Backhoe/Trailer - \$7,226 (\$500 Deductible)

John Deere Backhoe - \$58,500 (\$1000 Deductible)

Computer Equipment - \$33,230 (\$250 Deductible)

24' X 8' Gooseneck Trailer - \$3,993

1998 Trailer - \$4,400

MOHLENBERG COUNTY WATER DISTRICT  
SCHEDULE OF INSURANCE (Continued)  
For The Year Ended December 31, 1999

Contractor's Equipment Floater -Broad Form: (Continued):

Data and Media - \$6,646  
Dual Loader - \$2,650  
Telemetry Equipment - \$141,000  
1995 Ford Tractor - \$17,336  
1995 Auger - \$5,679  
1996 Torro Mower - \$2,100  
Radio Equipment - \$42,508

Comprehensive Crime Insurance:

Loss Inside of Premises - \$10,000  
Loss Outside of Premises - \$10,000

Royal Insurance Company of America

Policy PCS 17 6564 - 6/21/99 to 6/21/2000  
Workmens Compensation and Employer's Liability -  
\$500,000/\$500,000/\$500,000

Continental Insurance Company

Position Bond - BND 135 2146 - 11/21/99 to 11/21/2000  
Continental Blanket Employee Bond -

\$100,000 for employee dishonesty  
\$400,000 for bookkeeper and commissioners

Encroachment Bond - BND 1106 558 - 2/18/99 to 2/18/2000

Bond Limit - \$5,000

International Surplus Lines Insurance Company

Policy - 524-042786 - 07/01/99 to 07/01/2000  
Public Officials and Employee Liability - \$1,000,000 each  
Loss and Aggregate for each policy year (\$5,000 deductible)

I Certify that the insurance and bond coverage shown is currently effective and copies of the insurance policies are on file with our office.

-----  
Date

-----  
Officer

MUHLENBERG COUNTY WATER DISTRICT  
SUPPLEMENTAL DATA AND COMMENTS REQUIRED BY RD  
For the Year Ended December 31, 1999

- I. Generally accepted auditing procedures and Government Audit Standards were used by the independent Certified Public Accountant in the preparation of this audit.
- II. The system of internal control was evaluated. See auditors Report on the Internal Control Structure - Government Auditing Standards.
- III. The District's accounting records are adequate and appear to be prepared in a timely manner. The records also contain several subsidiary accounts to detail asset, liability, revenues, and expense account balances. No improvements are deemed necessary. No unsatisfactory conditions were noted in the past two years; therefore no corrective action was necessary.
- IV. Physical control over assets is adequate. The District's records contain subsidiary records to maintain control over inventory and fixed assets. Segregation of duties to safeguard assets such as cash and receivables is as adequate as possible within a limited number of staff.
- V. All bond payment requirements and reserve balances have been either paid currently or reserved in separate bank accounts for the year.
- VI. All funds of the District have been placed at First State Bank, Greenville, Kentucky - member of FDIC. Per audit report all funds are secured by a pledged instrument in the amount of \$1,228,869.
- VII. Insurance and bonding coverage appears to be adequate and is currently in force. See Schedule of Insurance in Force.
- VIII. Accounts receivable are closely monitored and subsidiary detailed records are reconciled to other cash transactions. The aged breakdown of the Balance Sheet amount of \$22,593 is as follows:

0-30 days	30-60 days
-----	-----
\$20,242	\$2,351

ADDITIONAL INFORMATION SHEET

Governing Body:

Name of RD Borrower: Muhlenberg County Water District

Name of Current Contact Person and Telephone Number:

Rebecca Wright, Office Manager (270) 338-1300

<u>Name</u>	<u>Address &amp; Telephone #</u>	<u>Expiration Term of Office</u>
----- Chairman/Commissioner ----- Joseph Holland	84 White Drive Beechmont, KY 42323 Phone: (270) 476-2954	07/24/2001
----- Secretary/Commissioner ----- Billy Steele	374 Whispering Hills Dr. Greenville, KY 42345 Phone: (270) 338-2274	12/31/2001
----- Treasurer/Commissioner ----- Bobby Creager	211 Sunset Drive Central City, KY 42330 Phone: (270) 338-3569	07/24/2000

Breakdown of Users:

(For System Extension Funded w/FmHA Grant Funds)

Residential Users	5,471
Commercial Users w/ residential size service	236
Commercial Users	286
Date of Verification	12/31/99

Ethnic Race Breakdown:

White	5,701
Black	56
Hispanic	0
Asian/PI	0
Am. Indian/AN	0

Breakdown of Users:

Residential Users	5,471
Commercial Users w/ residential size service	236
Commercial Users w/larger than residential size service	50
Date of Verification	12/31/99

Certified Operator:

Certified Operator Employed :	X	-----
	Yes	No.

MUHLENBERG COUNTY WATER DISTRICT  
 SCHEDULE OF FUNDS IN FINANCIAL INSTITUTIONS AS OF DECEMBER 31, 1999

A. Regular Operating Account:

1. First State Bank, Regular Operating Account, 1.54%	\$ 15,771 -----
--	--------------------

B. Funds Held in Trust, Security Deposit:

1. First State Bank, Security Deposit, 1.54%	76,841 -----
--	-----------------

C. Escrow Funds:

Depreciation Fund, checking, First State Bank, 1.54%	19,979
Depreciation Fund, CD, First State Bank, 5.50%	122,396
Bond Sinking Fund, checking, First State Bank, 1.54%	45,278
Bond Sinking Fund, CD, First State Bank, 6.67%	180,000
	367,653 -----

TOTAL FUNDS IN FINANCIAL INSTITUTIONS	\$ 460,265 =====
---------------------------------------	---------------------

# CHARLES R. LEWIS

CERTIFIED PUBLIC ACCOUNTANT

123 S. MAIN ST., P. O. BOX 815  
GREENVILLE, KY 42345  
TELEPHONE (270) 338-1709  
FAX (270) 338-7200

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
Muhlenberg County Water District  
Greenville, Kentucky

I have audited the financial statements of Muhlenberg County Water District as of and for the year ended December 31, 1999, and have issued my report thereon dated May 19, 2000. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Muhlenberg County Water District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Muhlenberg County Water District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect Muhlenberg County Water District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

The office staff is limited to segregation of duties due to the size of the staff. Adequate segregation is essential to an effective internal control structure. Additional staff members are not feasible.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe none of the reportable conditions described above is a material weakness. I also noted other matters involving the internal control over financial reporting that I have reported to management of Muhlenberg County Water District in a separate letter dated May 19, 2000.

This report is intended for the information of the Commissioners, management, and Rural Development. However, this report is a matter of public record and its distribution is not limited.



Charles R. Lewis  
Certified Public Accountant

Greenville, Kentucky  
May 19, 2000

Mullanburg County Water District

12-31-99

Adjusting Entries

PREPARED BY  
REVIEWED BY

DATE  
WP NO

		1	2	3	4
				DEBIT	CREDIT
1	Accounts Receivable - Dickson		①	4103.20	
2	Sales for Bonds - Dickson				4103.20
3					
4					
5			②		
6	Materials Inventory			1355.65	
7	Maintenance of Main				1355.65
8					
9					
10			③		
11	Amortization Expense			4232.58	
12	Unamortized Bond Discount				250.22
13	1995 Bond Costs				2098.58
14	1995 Bond Discount				1884.00
15					
16					
17			④		
18	Meter Installation			16263.26	
19	Meters			12281.27	
20	Maintenance of Main				16263.26
21	Maintenance of Meters				12281.27
22					
23					
24			⑤		
25	Transmission, Distribution			5235.82	
26	Material, Pipe, Parts Sold			14144.92	
27	Other Contributions				14144.92
28	Engineering Costs				1500.00
29	Maintenance of Main				3735.82
30					
31					
32					
33			⑥		
34	Prepaid Insurance			1444.22	
35	Insurance Expense				1444.22
36					
37					
38			⑦		
39	Bad Debt Expense			7207.28	
40	Accounts Receivable				7207.28
41					
42					
43					

		1	2	3	DEBIT	CREDIT
1	Structures: Improvement				11293	
2	Pumping Equipment				8500	
3	Office Furniture: Equipment				6996	
4	Communication Equipment				23680	
5	Miscellaneous Equipment				4200	
6	Purchased Water				5027.57	
7	Power Purchased for Pumping				4173.24	
8	Office Utilities				67004	
9	Chemicals: Analysis				27000	
10	Operating Supplies				109510	
11	Materials: Supply				124573	
12	Contract Service - Legal				40000	
13	Maintenance of Pumping Equipment				5929	
14	Equipment Repair: Maintenance				12724	
15	Maintenance of Main				302290	
16	Maintenance of Motors				7552	
17	Gas: Oil				176196	
18	Truck Repair: Maintenance				73223	
19	Insurance - Property: Vehicle				291900	
20	Advertising Expense				3206	
21	Office Telephone				28850	
22	Postage				79200	
23	Laboratory: Cell Phone				46357	
24	Service: Training				28500	
25	Office Supplies				59581	
26	Uniform: Mat				98820	
27	Office: Garage Maintenance				5696	
28	Office Cleaning: Maintenance				36000	
29	First Aid Supplies				3984	
30	Accounts Payable					7185245
31						
32						
33	Accumulated Depreciation				1000700	
34	Transportation Equipment					1000700
35						
36						
37	Office Building / Garage				4853170	
38	Structure and Improvement					4853170
39						
40						
41	Depreciation Expense				4693200	
42	Accumulated Depreciation					4693200
43						
					24359135	24359135

Muhlenberg County Water District

12-31-99

Explanation of Adjusting Entries

page ① of 2

ADJ No.

1. To record trade receivable due from City of Dickson  
at 12-31-99 for water for resale
2. To adjust book inventory to actual inventory count  
at 12-31-99.
3. To record amortization expense for 1999 on prior  
bond issuance
4. To reclassify (capitalize) actual meter installations  
new for 1999
5. To reclassify new services (transmission lines) for 1999  
that should be capitalized, and to reclassify customer  
contributions for new line to Other Contributions from  
income items of Material, Pipe, Parts Sold
6. To record prepaid prepaid insurance on balance sheet  
at 12-31-99.
7. To record trade accounts receivable deemed to be  
uncollectible at 12-31-99

Mulberry County Water District

page 2<sup>1</sup> of 2

12-31-99

Explanation of Adjusting Entries

ADJ No.

8. To accrue trade accounts payable at 12-31-99 to balance sheet
9. To record a truck that was traded with no book value
10. To reclassify Office Building Improvements from another Fixed Asset Account
11. To record proper depreciation expense per depreciation schedule as compared to District's monthly accrual

Q15. Refer to Muhlenberg District's Application, Tab. 12. Provide a copy of each loan agreement or bond ordinance listed.

RESPONSE: Attached is a copy of each of the following bond authorizing resolutions or loan agreements:

- a. 1995 Refunding Refund Bonds;
- b. October 26, 1995 Resolution Amending and Supplementing the 1966 and 1978 Bond Resolutions;
- c. 1978 Revenue Bonds (held by Rural Development);
- d. 1966 Revenue Bonds (held by Rural Development); and
- e. November 12, 1992 Sublease between Muhlenberg County and Muhlenberg District (KACOLT)

All bonds except the 1992 KACOLT require a debt service coverage of 1.20.

WITNESS: Rebecca Wright, MCWD  
Damon R. Talley, Attorney

- BOND-AUTHORIZING RESOLUTION -

A RESOLUTION OF THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT AUTHORIZING THE SALE AND ISSUANCE OF THE DISTRICT'S WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 1995, FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING BONDS OF THE DISTRICT, SUCH SERIES 1995 BONDS TO BE ISSUED ON A PARITY WITH CERTAIN OUTSTANDING BONDS; CONFIRMING PROVISIONS FOR THE COLLECTION, SEGREGATION AND DISBURSEMENT OF THE INCOME AND REVENUES OF THE DISTRICT'S WATER SYSTEM AND PROVIDING FOR THE PAYMENT OF THE SERIES 1995 BONDS; CONFIRMING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SAID INCOME AND REVENUES AND RANKING ON A PARITY WITH THE SERIES 1995 BONDS; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE SERIES 1995 BONDS

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Adopted October 16, 1995

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- BOND-AUTHORIZING RESOLUTION -

A RESOLUTION OF THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT AUTHORIZING THE SALE AND ISSUANCE OF THE DISTRICT'S WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 1995, FOR THE PURPOSE OF REFUNDING CERTAIN OUTSTANDING BONDS OF THE DISTRICT, SUCH SERIES 1995 BONDS TO BE ISSUED ON A PARITY WITH CERTAIN OTHER OUTSTANDING BONDS; CONFIRMING PROVISIONS FOR THE COLLECTION, SEGREGATION AND DISBURSEMENT OF THE INCOME AND REVENUES OF THE DISTRICT'S WATER SYSTEM AND PROVIDING FOR THE PAYMENT OF THE SERIES 1995 BONDS; CONFIRMING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM SAID INCOME AND REVENUES AND RANKING ON A PARITY WITH THE SERIES 1995 BONDS; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE SERIES 1995 BONDS

WHEREAS, upon petition and hearing, and upon proper public notice according to the provisions of Chapter 74 of the Kentucky Revised Statutes ("KRS"), an Order and Judgment was duly entered by the County Court of Muhlenberg County, Kentucky, on July 24, 1962, determining necessity for and creating and establishing the Muhlenberg County Water District (the "District") and defining the geographical area thereof, and the Court thereupon appointed Commissioners of the District, the same constituting and being a public body corporate with all powers and authority as provided in KRS Chapter 74; and

WHEREAS, subsequently, by Order of the same Court dated July 21, 1966, Muhlenberg County Water District #2 was merged into the District, and by Order of the Public Service Commission of Kentucky dated January 28, 1987, the merger of Muhlenberg County Water District No. 1 (the "Graham District") into the District was approved and the Muhlenberg County Fiscal Court, as directed by the Public Service Commission, adopted a Resolution/Order on May 14, 1987, revising the boundaries of the District to include the former area of the Graham District in Muhlenberg County; and

WHEREAS, the District has for many years owned and operated its municipal water system (the "System") serving the area of the District, and the District currently has outstanding, payable from the revenues of the System as described below, the following revenue bonds:

Water Works System Revenue Bonds in the outstanding principal amount of \$510,000 (the "1966 Bonds"), authorized by Resolution adopted on March 1, 1966 (the "1966 Resolution");

Water System Revenue Bonds, Series of 1978, in the outstanding principal amount of \$1,637,000 (the "1978 Bonds"), authorized by Resolution adopted on February 2, 1978 (the "1978 Resolution");

Water System Revenue Bonds, Series 1987, in the outstanding principal amount of \$2,078,000 (the "1987 Bonds"), authorized by Resolution adopted on March 24, 1986, as amended and supplemented on February 2, 1988 (collectively the "1987 Resolution"); and

Water Revenue Bonds dated July 1, 1965, in the outstanding principal amount of \$26,000 (the "Graham Bonds"), originally authorized by Resolution of the Graham District adopted on June 23, 1965, the obligation for the payment of which was assumed by the District upon the merger with the Graham District in 1987; and

WHEREAS, the 1966 Bonds, 1978 Bonds and 1987 Bonds all rank on a parity one with the other and are secured by a first pledge of the revenues of the System, and the lien securing the Graham Bonds will, by concurrent proceedings, be effectively defeased prior to the issuance of the 1995 Bonds hereinafter identified and authorized (and the Graham Bonds will be redeemed on January 1, 1996); and

WHEREAS, the 1966, 1978 and 1987 Bonds are held by the United States of America, Department of Agriculture ("USDA"), formerly acting through the Farmers Home Administration; and with the consent of USDA the District has adopted, on the date of adoption of this Resolution, a Resolution amending and supplementing the 1966, 1978 and 1987 Resolutions for the purpose of facilitating the refunding of the 1987 Bonds as set out hereinafter, and further references herein to the respective 1966, 1978 and 1987 Resolutions shall be deemed to include such Resolutions as so amended and supplemented this date; and

WHEREAS, it is provided in the 1966, 1978 and 1987 Resolutions that the District may issue additional bonds ranking on a basis of parity and equality with the 1966, 1978 and 1987 Bonds for the purpose of refunding outstanding bonds of the District, provided that the holders of all 1966, 1978 and 1987 Bonds to remain outstanding consent to such issuance; and the District has determined such requirement can and shall be satisfied prior to issuance of the 1995 Bonds hereinafter identified and authorized; and

WHEREAS, the District has determined it is necessary and desirable in the public interest that the District currently refund and retire the outstanding 1987 Bonds, which may be paid and discharged immediately, in order to effect substantial debt service savings; and to provide funds for such refunding it is now appropriate for the District to cause the sale and issuance of its Water System Refunding Revenue Bonds, Series 1995 (the "1995 Bonds"), according to authority of KRS Chapters 74 and 106 and the applicable provisions of the 1966, 1978 and 1987 Resolutions permitting the issuance of bonds on a parity with the 1966 and 1978 Bonds, which 1995 Bonds shall be payable as to both principal and interest solely from the income and revenues to be

derived from the operation of the System, as extended and improved from time to time, on a parity with the 1966 and 1978 Bonds, and shall not constitute an indebtedness of the District within the meaning of debt-limiting provisions of the Constitution of Kentucky; and

WHEREAS, in proceedings before the Public Service Commission of Kentucky, the District has obtained, or will obtain prior to issuance of the 1995 Bonds hereinafter identified and authorized, an order approving the issuance of the 1995 Bonds;

NOW, THEREFORE, THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. Affirmation of Preamble Recitals; System to Be Municipally Owned and Operated. All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby affirmed and adopted as a part of this Resolution.

So long as any of the 1995 Bonds hereinafter authorized, or bonds issued on a parity therewith, shall remain outstanding and unpaid as to principal or interest, the System shall continue to be municipally owned, controlled, operated and maintained by the District for the security and source of payment of the 1995 Bonds and such parity bonds. The System shall continue to be operated pursuant to the provisions of KRS Chapters 74 and 106, now in full force and effect.

Section 2. 1995 Bond Issue Authorized. For the purpose of providing funds to refund the 1987 Bonds, as hereinbefore described, to pay expenses incident to the issuance of the 1995 Bonds and to fund the reserve hereinafter described, there are hereby authorized to be issued the District's Water System Refunding Revenue Bonds, Series 1995 (the "1995 Bonds"), in the aggregate principal amount of \$2,360,000, which aggregate principal amount, together with corresponding amounts of annual maturities as set out in Section 3 hereof, may be increased or decreased by as much as \$200,000 by Resolution of the Commission of the District upon sale of the 1995 Bonds as hereinafter provided in Section 22, and each of which 1995 Bonds shall be designated a "Muhlenberg County Water District Water System Refunding Revenue Bond, Series 1995."

Section 3. Description of 1995 Bonds. The 1995 Bonds shall be dated October 1, 1995, and shall bear interest payable on January 1, 1996, and on each January 1 and July 1 thereafter to maturity and payment of the 1995 Bonds, such interest to be paid by check or draft drawn upon the Paying Agent and Bond Registrar, hereinafter designated, and mailed to each person in whose name a 1995 Bond is registered as hereinafter provided (a "Registered Holder") at the address of such Registered Holder as it appears on the registration books of the Paying Agent and Bond Registrar. Old National Trust Company -- Kentucky, Greenville, Kentucky, is hereby designated and appointed as the Paying Agent and Bond Registrar. The principal of and premium, if any, on the 1995 Bonds shall be payable to the respective Registered Holders without exchange or collection charges, in lawful money of the United States of America, upon their presentation and

surrender as they respectively become due and payable, whether at maturity or by prior redemption, at the principal office of the Paying Agent and Bond Registrar situated in Greenville, Kentucky. The 1995 Bonds shall be issued and reissued by the Paying Agent and Bond Registrar from time to time only as fully registered bonds without coupons in the denominations of \$5,000 and any integral multiples thereof, as hereinafter provided. Unless the District shall otherwise direct, the 1995 Bonds shall be numbered separately from 1 upward.

The 1995 Bonds shall bear interest at a rate or rates to be established by Resolution on the basis of competition after the 1995 Bonds are offered for sale at an advertised, public, competitive sale as hereinafter provided. The fifteenth day (15th) of the month prior to a January 1 or July 1 interest payment date shall be the record date for the 1995 Bonds (the "Record Date") for the purpose of determining the Registered Holder to whom interest shall be payable on the next succeeding interest payment date, and the Paying Agent and Bond Registrar may treat for such purpose the person in whose name any 1995 Bond is registered on the Record Date as the Registered Holder thereof.

The 1995 Bonds shall mature and be payable as to principal as follows:

<u>Maturity Date</u>	<u>Principal Amount*</u>	<u>Maturity Date</u>	<u>Principal Amount*</u>
January 1, 1996	\$ 10,000	January 1, 2009	\$ 85,000
January 1, 1997	45,000	January 1, 2010	90,000
January 1, 1998	45,000	January 1, 2011	95,000
January 1, 1999	50,000	January 1, 2012	100,000
January 1, 2000	50,000	January 1, 2013	105,000
January 1, 2001	55,000	January 1, 2014	115,000
January 1, 2002	55,000	January 1, 2015	120,000
January 1, 2003	60,000	January 1, 2016	130,000
January 1, 2004	60,000	January 1, 2017	140,000
January 1, 2005	65,000	January 1, 2018	150,000
January 1, 2006	70,000	January 1, 2019	160,000
January 1, 2007	75,000	January 1, 2000	170,000
January 1, 2008	80,000	January 1, 2021	180,000

\*Subject to adjustment as provided in Section 22 hereof.

provided, however, certain 1995 Bonds may become Term Bonds subject to mandatory sinking fund redemption as described in Section 4 hereof and in subparagraph (D) of Section 22 hereof.

All of the 1995 Bonds, together with the 1966 and 1978 Bonds and any additional bonds ranking on a parity therewith as may be issued and outstanding from time to time under the conditions and restrictions hereinafter set forth, and the interest thereon, shall be payable only out of the special fund of the District designated the "Waterworks Bond and Interest Sinking Fund" (the "Sinking Fund") as hereinafter more specifically provided in Section 14 and shall be a valid claim of the Registered Holder thereof only against the Sinking Fund and the portion or amount of the income and revenues of the System pledged to the Sinking Fund.

Section 4. Redemption of 1995 Bonds.

(A) Mandatory Sinking Fund Redemption.

If the successful bidder and original purchaser of the 1995 Bonds so elects in accordance with the provisions of subparagraph (D) of Section 22 hereof and as may be provided in the Resolution of the Commission awarding the 1995 Bonds to such original purchaser, the 1995 Bonds stated to mature on the maturity dates set out in the successful bid of such original purchaser shall be combined to comprise the maturities of Term Bonds as set out in said successful bid and in said Resolution; and such Term Bonds shall be subject to mandatory redemption in part, at the selection of the Paying Agent and Bond Registrar by lot in such manner as the Paying Agent and Bond Registrar may determine, from moneys in the Sinking Fund on each applicable January 1 at par plus accrued interest to the redemption date, according to the mandatory sinking fund redemption schedule or schedules set out in said Resolution and in principal amounts corresponding to the above maturity schedule set out in Section 3 hereof, as may be adjusted as provided in Section 22 hereof.

(B) Optional Redemption.

The 1995 Bonds are non-callable for redemption prior to October 1, 2005. The 1995 Bonds maturing on and after January 1, 2006, are subject to redemption by the District, at its option, prior to maturity in whole or from time to time in part on any date on or after October 1, 2005, in any order of maturity (less than all of a single maturity to be selected by lot in such manner as the Paying Agent and Bond Registrar may determine) at the redemption prices (expressed as percentages of principal amount) set forth in the table below plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
October 1, 2005, and prior to July 1, 2006	102%
July 1, 2006, and prior to July 1, 2007	101%
July 1, 2007, and thereafter	100%

The 1995 Bonds maturing on and after January 1, 2006, shall be called for redemption by the Paying Agent and Bond Registrar as herein provided upon receipt by the Paying Agent and Bond Registrar at least forty-five (45) days prior to the redemption date of a certificate of the District specifying the principal amount and maturities of the 1995 Bonds so to be called for redemption and the applicable redemption price or prices.

(C) Other Redemption Provisions.

The Paying Agent and Bond Registrar shall, upon being satisfactorily indemnified as to expenses, cause notice of the call for any redemption, identifying the 1995 Bonds or portions thereof (\$5,000 or any integral multiples thereof) to be redeemed, to be sent by registered or certified mail at least thirty (30) days prior to the date fixed for redemption to the Registered Holder of each 1995 Bond to be redeemed at the address shown on the registration books. Failure to give such notice by mailing or any defect therein in respect of any 1995 Bond shall not affect the validity of any proceedings for the redemption of any other 1995 Bond. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether the Registered Holder receives the notice. The redemption notice shall set forth in detail the redemption provisions.

Prior to the date fixed for redemption of 1995 Bonds, funds shall be deposited by the District with the Paying Agent and Bond Registrar to pay, and the Paying Agent and Bond Registrar is hereby authorized and directed to deposit such funds into the Sinking Fund hereinafter identified and to apply such funds to the payment of, the 1995 Bonds or portions thereof called for redemption, together with accrued interest thereon to the redemption date and any required premium. Upon the giving of notice and the deposit of adequate funds in the Sinking Fund for redemption of 1995 Bonds, interest on the 1995 Bonds or portions thereof so called for redemption shall cease to accrue after the date fixed for redemption. No payment of principal, premium or interest shall be made by the Paying Agent and Bond Registrar upon any 1995 Bond or portion thereof called for redemption until such 1995 Bond or portion thereof shall have been delivered to the Paying Agent and Bond Registrar for payment or cancellation, or the Paying Agent and Bond Registrar shall have received the items required by Section 7 hereof with respect to any mutilated, lost, stolen or destroyed 1995 Bond.

A portion of any 1995 Bond maturing on or after January 1, 2006, may be redeemed, but 1995 Bonds shall be redeemed only in the principal amount of \$5,000 each or any integral multiples thereof. Upon surrender of any 1995 Bond for redemption in part only, the District shall execute and the Paying Agent and Bond Registrar shall register, authenticate and deliver to the holder thereof, within a period of three days from surrender of such 1995 Bond to the Paying Agent and Bond Registrar, at the expense of the District, a new 1995 Bond or 1995 Bonds of the same maturity, of authorized denominations and in aggregate principal amount equal to the unredeemed portion of the 1995 Bond surrendered.

Section 5. Execution of 1995 Bonds; Limited Obligation. The 1995 Bonds shall be executed on behalf of the District by the manual or reproduced facsimile signature of the Chairman and shall have impressed or imprinted thereon either a true impression or a reproduced facsimile of the official seal of the District and shall be attested with the manual or reproduced facsimile signature of the Secretary. An authorized facsimile signature shall have the same force and effect as a manual signature. In case any officer of the District whose signature or a facsimile of whose signature shall appear on the 1995 Bonds shall cease to be such officer before the delivery of such 1995 Bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if he had remained in office until delivery.

The 1995 Bonds are not general obligations of the District but are special and limited obligations payable solely from the Sinking Fund as hereinafter provided, and the Sinking Fund and the income and revenues of the System are hereby specifically assigned and pledged to the holders of the 1995 Bonds and parity bonds for the payment of the 1995 Bonds and parity bonds and interest thereon in the manner and to the extent provided herein. The 1995 Bonds and the interest thereon do not constitute a debt, indebtedness or a pledge of the faith and credit of the District within the meaning of any provision or limitation of the Constitution or statutes of the Commonwealth of Kentucky and shall not constitute a charge against its general credit. The District shall not be obligated to pay the principal of the 1995 Bonds, premium, if any, or the interest thereon or other costs incident thereto except from the revenues and amounts assigned and pledged therefor, and the faith and credit of the District is not assigned or pledged to the payment of the principal of the 1995 Bonds, premium, if any, or the interest thereon or other costs incident thereto.

Section 6. Form of 1995 Bonds. The 1995 Bonds shall be issued only in the form of bonds registered as to payment of both principal and interest in substantially the following form, with necessary and appropriate variations, omissions and insertions as permitted or required by this Resolution or customary practice, as follows:

(FORM OF FACE OF BOND)

No. \_\_\_\_\_ \$ \_\_\_\_\_

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTY OF MUHLENBERG  
MUHLENBERG COUNTY WATER DISTRICT  
WATER SYSTEM REFUNDING REVENUE BONDS  
SERIES 1995

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>BOND DATE</u>	<u>CUSIP</u>
_____ %	January 1, _____	October 1, 1995	_____

REGISTERED HOLDER: \_\_\_\_\_

PRINCIPAL AMOUNT: \_\_\_\_\_

KNOW ALL MEN BY THESE PRESENTS: That Muhlenberg County Water District (the "District"), a statutory water district created, organized and existing pursuant to Chapter 74 of the Kentucky Revised Statutes and situated in Muhlenberg County, Kentucky, acting by and through its Commission, for value received, hereby promises to pay to the registered holder identified above, or registered assigns, solely and only from the special fund pledged for that purpose as hereinafter referred to and not otherwise, the principal amount set out above, on the maturity date set out above, and to pay interest from the same source on the unpaid balance of said amount at the interest rate per annum set out above, payable on the first days of January and July in each year, beginning January 1, 1996, until payment of the principal amount or until the date fixed for redemption if this Bond is called for prior redemption and payment on such redemption date is duly provided for. Each such interest payment shall represent interest accruing on this Bond from the later of October 1, 1995, or the most recent interest payment date (January 1 or July 1) to which interest has been paid or duly provided for.

Interest accruing on this Bond shall be payable as aforesaid by check or draft drawn upon Old National Trust Company -- Kentucky, Greenville, Kentucky, as the Paying Agent and Bond Registrar (the "Paying Agent and Bond Registrar"), and mailed to the person who is the registered holder hereof as of the close of business on the Record Date for such interest installment, which Record Date shall be the fifteenth (15th) day of the month (whether or not a business day) next preceding an interest payment date, at the address of such registered holder as it appears on the books of the Paying Agent and Bond Registrar. Principal shall be paid when due upon delivery of this Bond for payment at the principal office of the Paying Agent and Bond Registrar in Greenville, Kentucky.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

This Bond is exempt from ad valorem taxation by the Commonwealth of Kentucky and by all of the political subdivisions thereof.

This Bond shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been executed by the Paying Agent and Bond Registrar.

IN WITNESS WHEREOF, Muhlenberg County Water District, acting by and through its Commission, has caused this Bond to be executed with the manual or reproduced facsimile of the official signature of the Chairman of its Commission, to be sealed by an impression or a reproduced facsimile of an impression of the official seal of the District and to be attested by the

manual or reproduced facsimile signature of the Secretary of its Commission, in each case as its duly authorized officer, all as of the date of this Bond, which is October 1, 1995.

(Facsimile of Seal  
of District)

MUHLENBERG COUNTY WATER DISTRICT

By (manual or facsimile signature)  
Chairman of the Commission

ATTEST:

(manual or facsimile signature)  
Secretary of the Commission

AUTHENTICATION CERTIFICATE

The undersigned hereby certifies  
that this is one of  
the Bonds described above.

OLD NATIONAL TRUST COMPANY --  
KENTUCKY  
Greenville, Kentucky  
Paying Agent and Bond Registrar

By (manual signature)  
Authorized Officer

Authentication Date: \_\_\_\_\_

(END OF FACE OF BOND)

(BEGIN REVERSE OF BOND)

This Bond is one of a duly authorized issue of Bonds of the District designated "Muhlenberg County Water District Water System Refunding Revenue Bonds, Series 1995" (the "Bonds"), issued in the original principal amount of \$ \_\_\_\_\_, authorized and issued by the District pursuant to a Resolution duly adopted by its Commission (the "Bond Resolution") for the purpose of refunding certain outstanding bonds payable from the revenues of the District's municipal water system (the "System"), and this Bond has been issued under and in full compliance with the Constitution and statutes of the Commonwealth of Kentucky, including among others Chapters 74 and 106 of the Kentucky Revised Statutes.

Reference is made to the Bond Resolution for provisions with respect to the nature and extent of the security, rights, duties and obligations of the holders of the Bonds, the District and the Paying Agent and Bond Registrar, the terms upon which the Bonds are issued and the terms and conditions upon which the Bonds will be deemed to be paid at or prior to their scheduled maturity or redemption upon the making of provision for the payment thereof in the manner set forth in the Bond Resolution.

\*The Bonds maturing on January 1 \_\_\_\_\_, are subject to mandatory sinking fund redemption in part, at the selection of the Paying Agent and Bond Registrar by lot, from moneys in the special fund identified hereinafter on each January 1, beginning January 1, \_\_\_\_\_, at the principal amount thereof plus accrued interest to the redemption date, according to following schedule of mandatory sinking fund installments:

<u>January 1</u>	<u>Amount</u>
	\$

\_\_\_\_\_  
\*This paragraph is to be inserted, and may be repeated, with respect to any Term Bonds as described in Section 3 hereof.

The Bonds are non-callable for redemption prior to October 1, 2005. The Bonds maturing on and after January 1, 2006, are subject to redemption by the District, at its option, prior to maturity in whole or from time to time in part on any date on or after October 1, 2005, in any order of maturity (less than all of a single maturity to be selected by lot by the Paying Agent and Bond Registrar) at the redemption prices expressed as percentages of principal amount set forth in the table below plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
October 1, 2005, and prior to July 1, 2006	102%
July 1, 2006, and prior to July 1, 2007	101%
July 1, 2007, and thereafter	100%

At least thirty (30) days prior to the redemption date of any Bonds, the Paying Agent and Bond Registrar shall cause a notice of redemption to be mailed postage prepaid by registered or certified mail to all registered holders of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any such Bond shall not affect the validity of the redemption of any other Bond. Such redemption notice shall set forth in detail the redemption provisions.

This Bond and the series of which it forms a part, together with additional bonds ranking on a parity therewith which have been previously issued and are outstanding and as may be hereafter issued and outstanding from time to time under the conditions and restrictions set forth in the Bond Resolution, are payable from and secured by a pledge of a fixed portion of the revenues to be derived from the operation of the System, which fixed portion shall be sufficient to pay the principal of and premium, if any, and interest on this Bond and the series of which it forms a part, and such additional parity bonds, as and when the same become due and payable and which shall be set aside as a special fund for that purpose and identified as the "Waterworks Bond and Interest Sinking Fund."

This Bond and the series of which it forms a part do not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations. The District covenants that the System will be continuously operated as a revenue-producing undertaking and that it will fix and charge such rates for the services and facilities of the System so that the revenues therefrom will be sufficient to pay the interest and premium, if any, on and principal of this series of Bonds and all other bonds ranking on a parity therewith as may be outstanding from time to time and also to pay the costs of operation and maintenance of the System.

This Bond is issued under and pursuant to the Constitution and statutory laws of the Commonwealth of Kentucky and its construction will be governed thereby.

This Bond shall be transferable only upon the presentation and surrender hereof at the principal office of the Paying Agent and Bond Registrar in Greenville, Kentucky, duly endorsed for transfer or accompanied by an assignment duly executed by the registered holder or his authorized representative. The Paying Agent and Bond Registrar shall not be required to transfer or exchange this Bond (a) during any period beginning five days prior to the selection by the Paying Agent and Bond Registrar of Bonds to be redeemed prior to maturity and ending on the date of mailing of

notice of any such redemption or (b) if this Bond has been selected or called for redemption in whole or in part.

Bonds shall be exchangeable upon the presentation and surrender thereof at the principal corporate trust office of the Paying Agent and Bond Registrar for a Bond or Bonds of the same maturity, and in the denomination of \$5,000 or any integral multiple thereof, in an aggregate principal amount or amounts equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent and Bond Registrar shall authenticate and deliver Bonds delivered in exchange in accordance herewith.

A statutory mortgage lien upon the System, together with all future additions and improvements thereto, and extensions thereof, is created by Section 106.080 of the Kentucky Revised Statutes and by the Bond Resolution to and in favor of the registered holder of this Bond and outstanding parity bonds, and the same is hereby recognized as being effective and shall remain in effect until payment in full of the principal of and premium, if any, and interest on this Bond and outstanding parity bonds.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of this Bond have existed, have happened and have been performed in due time, form and manner as required by law; that the issuance of this Bond and the series of which it forms a part, together with all other obligations of the District, does not exceed or violate any constitutional or statutory limitation; and that a sufficient portion of the revenues of the System, after allowance for the vested rights and priorities as aforesaid, has been pledged to and will be set aside into said special fund by the District for the prompt payment of the principal of and premium, if any, and interest on this series of Bonds and all other bonds which by their terms and by the provisions of the Bond Resolution are payable from said special fund.

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ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells,  
assigns and transfers unto

\_\_\_\_\_  
(Name, Address and Social Security (or other Identifying) Number of  
Assignee)

\_\_\_\_\_  
the within Bond and does hereby irrevocably constitute and appoint

\_\_\_\_\_  
attorney to transfer the said Bond on the books kept for registration thereof with full power of  
substitution in the premises.

Dated: \_\_\_\_\_

NOTICE: The signature of this assignment must correspond with the name of the  
registered holder as it appears upon the face of the within Bond in every particular,  
without alteration or enlargement or any change whatever.

Signature guaranteed:  
  
\_\_\_\_\_

(END OF REVERSE OF BOND)

Section 7. Mutilated, Lost, Stolen or Destroyed 1995 Bonds. In the event any 1995  
Bond is mutilated, lost, stolen or destroyed, the District may execute and the Paying Agent and  
Bond Registrar may authenticate and deliver a new 1995 Bond of like series, date, maturity and  
denomination as that mutilated, lost, stolen or destroyed; provided that, in the case of any  
mutilated 1995 Bond, such 1995 Bond shall first be surrendered to the Paying Agent and Bond  
Registrar, and in the case of any lost, stolen or destroyed 1995 Bond, there shall be first furnished  
to the District and the Paying Agent and Bond Registrar evidence of such loss, theft or destruction  
satisfactory to them and such indemnity as the District and the Paying Agent and Bond Registrar  
may require. In the event any such 1995 Bond shall have matured, in lieu of issuing a duplicate  
1995 Bond, the District may pay the same without surrender thereof. The District and the Paying  
Agent and Bond Registrar may charge the holder or owner of such 1995 Bond their reasonable  
fees and expenses in this connection.

Section 8. Registration, Authentication, Transfer and Exchange of 1995 Bonds. So long as any 1995 Bonds remain outstanding, the Paying Agent and Bond Registrar shall keep and maintain at its principal office in Greenville, Kentucky, complete registration books for the 1995 Bonds and shall provide for the registration and transfer of 1995 Bonds in accordance with the terms of this Resolution. Each 1995 Bond shall be authenticated by the Paying Agent and Bond Registrar and shall be transferable only upon the presentation and surrender thereof at the principal corporate trust office of the Paying Agent and Bond Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Holder or his authorized representative. Upon receipt of any such 1995 Bond, duly endorsed for transfer or accompanied by any assignment for transfer, the Paying Agent and Bond Registrar shall transfer such 1995 Bond within a period of three days by reissuing such 1995 Bond, duly executed by the District and authenticated by the Paying Agent and Bond Registrar, and delivering the same to the new Registered Holder thereof forthwith.

The Paying Agent and Bond Registrar shall not be required to transfer or exchange any 1995 Bond (a) during any period beginning five (5) days prior to the selection by the Paying Agent and Bond Registrar of 1995 Bonds to be redeemed prior to maturity and ending on the date of mailing of notice of any such redemption or (b) if such 1995 Bond has been selected or called for redemption in whole or in part.

1995 Bonds shall be exchangeable upon the presentation and surrender thereof at the principal office of the Paying Agent and Bond Registrar in Greenville, Kentucky, for a 1995 Bond or 1995 Bonds of the same maturity, in the denomination of \$5,000 or an integral multiple thereof, in an aggregate principal amount or amounts equal to the unpaid principal amount of the 1995 Bond or 1995 Bonds presented for exchange. The Paying Agent and Bond Registrar shall and is hereby authorized to authenticate and deliver 1995 Bonds delivered in exchange in accordance herewith. Each 1995 Bond delivered in exchange for a surrendered 1995 Bond shall constitute an original contractual obligation of the District and shall be entitled to the benefits and security of this Resolution to the same extent as the 1995 Bond or 1995 Bonds in lieu of which any 1995 Bond is delivered in exchange. Any 1995 Bonds surrendered for exchange shall be cancelled by the Paying Agent and Bond Registrar and the Paying Agent and Bond Registrar shall maintain a complete record of all exchanges, transfers and cancellations of 1995 Bonds and shall make a report thereof to the District on not less than an annual basis.

No service charge or other transfer fee shall be charged to any Bondholder in connection with any transfer or exchange of a 1995 Bond. However, the Registered Holder of any 1995 Bond may be required to pay an amount equal to any tax or other governmental charge, if any, that may be imposed in connection with the transfer or exchange of any 1995 Bond.

Section 9. Destruction of 1995 Bonds. Whenever any outstanding 1995 Bond shall be delivered to the Paying Agent and Bond Registrar for cancellation thereof pursuant to this Resolution, upon payment of the principal amount or interest represented thereby or for replacement or exchange, such 1995 Bonds, following such replacement or exchange, shall be

promptly cancelled and destroyed by the Paying Agent and Bond Registrar and counterparts of a certificate of destruction evidencing such destruction shall be furnished by the Paying Agent and Bond Registrar to the District.

All 1995 Bonds which have been redeemed shall not be reissued but shall be cancelled and destroyed by Paying Agent and Bond Registrar in accordance with this Section.

Section 10. Appointment and Duties of Paying Agent and Bond Registrar. The District hereby appoints Old National Trust Company -- Kentucky, Greenville, Kentucky, as Paying Agent and Bond Registrar in respect of the 1995 Bonds. The Paying Agent and Bond Registrar shall maintain a complete and current record of each 1995 Bond issued, the name and address of each owner (Registered Holder) of any 1995 Bonds and such additional information as may be required for compliance with applicable laws and regulations. The Paying Agent and Bond Registrar will also make all payments of interest on the 1995 Bonds and pay principal of and premium, if any, on the 1995 Bonds as herein provided.

The recitals of fact herein and in the 1995 Bonds contained shall be taken as the statements of the District and the Paying Agent and Bond Registrar assumes no responsibility for the correctness of the same. The Paying Agent and Bond Registrar makes no representations as to the validity or sufficiency of this Resolution or of any 1995 Bonds issued thereunder or in respect of the security afforded by this Resolution, and the Paying Agent and Bond Registrar shall not incur any responsibility in respect thereof. The District shall, however, be responsible for its representations contained in the 1995 Bonds. The Paying Agent and Bond Registrar shall not be under any responsibility or duty with respect to the issuance of the 1995 Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the District. The Paying Agent and Bond Registrar shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. The Paying Agent and Bond Registrar shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. The Paying Agent and Bond Registrar may consult with counsel, who may or may not be of counsel to the District, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever the Paying Agent and Bond Registrar shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by an authorized officer of the District and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Resolution upon the faith thereof, but in its discretion the Paying Agent and Bond Registrar may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidences as to it may seem reasonable. Except as otherwise expressly provided herein, any request, order, notice or other direction required or

permitted to be furnished pursuant to any provision hereof by the District to the Paying Agent and Bond Registrar shall be sufficiently executed if executed in the name of the District by its Chairman or Secretary.

The District shall pay to the Paying Agent and Bond Registrar from time to time reasonable compensation for all services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution. The District further agrees to indemnify and hold the Paying Agent and Bond Registrar harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default. The Paying Agent and Bond Registrar hereby indemnifies and will hold the District harmless against any liabilities which the District may incur as a result of the negligence or default of the Paying Agent and Bond Registrar.

The Paying Agent and Bond Registrar may become the owner of any 1995 Bonds, with the same rights it would have if it were not the Paying Agent and Bond Registrar. The Paying Agent and Bond Registrar and any other fiduciary may act as depository for, or permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 1995 Bondholders or to effect or aid in any reorganization growing out of the enforcement of the 1995 Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority in principal amount of the 1995 Bonds then outstanding.

Any company into which the Paying Agent and Bond Registrar may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Paying Agent and Bond Registrar may sell or transfer all or substantially all of its banking and corporate trust business, provided such company shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to the Paying Agent and Bond Registrar without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11. Parity Declaration. The District finds and declares that the 1995 Bonds, when issued, shall rank on a basis of parity and equality as to security and source of payment with the 1966 and 1978 Bonds, inasmuch as the District is in compliance with all covenants and undertakings in connection with the 1966 and 1978 Bonds and can and shall, prior to the delivery of the 1995 Bonds, satisfy the parity bond requirements and conditions of the 1966 and 1978 Resolutions.

Section 12. Disposition of 1995 Bond Proceeds. All sums received as accrued interest from the sale of the 1995 Bonds shall be deposited in the Sinking Fund hereinafter continued (for payment of interest first due on the 1995 Bonds) and the remaining 1995 Bond proceeds shall be applied as follows:

(A) There shall first be paid from the 1995 Bond proceeds by or on the order of the Chairman or Treasurer the contractual fee of the District's Financial Advisor, the fee and any expenses of the Bond Registrar and Paying Agent, all counsel fees and expenses, rating service fees, if any, printing and publication charges and any other necessary or desirable fees and expenses with respect to the issuance of the 1995 Bonds and the refunding of the 1987 Bonds.

(B) A sufficient portion of the 1995 Bond proceeds together with such other legally available funds of the District as may be necessary, including sums previously accrued specifically to pay interest on and all principal of the 1987 Bonds (which funds are hereby appropriated for such purpose), shall be applied to the current refunding, redemption or prepayment and retirement of the 1987 Bonds as herein described, and in this connection each of the Chairman, Secretary and Treasurer is hereby authorized and directed to take all necessary action on behalf of the District to provide for such redemption or prepayment and retirement immediately upon delivery of the 1995 Bonds, and in any event no later than ten days thereafter.

(C) A sufficient portion of the 1995 Bond proceeds together with other available funds of the District as shall be necessary to cause the aggregate amount on deposit in the Debt Service Reserve Fund hereinafter referred to be equal to the Reserve Amount (as hereinafter defined) shall be deposited in the Debt Service Reserve Fund.

(D) The balance of the 1995 Bond proceeds, if any, shall be deposited in the Sinking Fund hereinafter referred to.

Section 13. Application of Remaining Funds Held for 1987 Bonds. The District covenants that simultaneously with the delivery of the 1995 Bonds all amounts remaining in funds and accounts previously created and maintained by the District specifically for payment of principal of and accrued interest on the 1987 Bonds shall be transferred and applied according to the written direction of the Chairman or the Treasurer.

Section 14. Operation and Revenues of System; Funds and Accounts. From and after issuance and delivery of the 1995 Bonds, and so long as any of the 1995 Bonds or parity bonds remain outstanding and unpaid, the System shall continue to be operated on a fiscal year basis beginning each January 1 and ending on the last day of the next December, as at present, and on that basis the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

(A) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created by the 1966 Resolution designated and identified as the District's "Water Revenue Fund" (the "Revenue Fund"), which shall continue to be maintained by the District, and into which shall be deposited all income and revenues of the System (to the extent not otherwise provided to be deposited hereinafter). The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District, as permitted by applicable statutes, as follows:

(B) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created in and by the 1966 Resolution and designated and identified as the "Waterworks Bond and Interest Sinking Fund" (the "Sinking Fund"), which shall continue to be maintained so long as any of the 1966 Bonds, 1978 Bonds, 1995 Bonds or parity bonds herein permitted to be issued are outstanding; and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the 1966 Bonds, 1978 Bonds, 1995 Bonds and any parity bonds hereafter issued and outstanding pursuant to the provisions of this Resolution.

There shall be set aside and transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Sinking Fund sums sufficient to pay when due the principal and interest requirements on the 1966, 1978 and 1995 Bonds and any parity bonds. Specifically, there shall be paid into the Sinking Fund on or before the 20th day of each month, on account of the 1966, 1978 and 1995 Bonds, not less than the following:

- (i) a sum which together with other funds available in the Sinking Fund for such purpose will be equal to one-sixth ( $1/6$ ) of the next succeeding interest installment to become due on all 1966, 1978 and 1995 Bonds then outstanding; and
- (ii) a sum which together with other funds available in the Sinking Fund for such purpose will be equal to one-twelfth ( $1/12$ ) of the principal of all 1966, 1978 and 1995 Bonds maturing on the next succeeding January 1.

In the event additional parity bonds are issued pursuant to the conditions and restrictions hereinafter prescribed in that connection, the monthly deposits to the Sinking Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

If for any reason there should be a failure to pay into the Sinking Fund the full amounts above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the Sinking Fund from the first available income and revenues of the System, subject to the aforesaid priorities.

No further payments need be made into the Sinking Fund if and when the amount held therein and in the Debt Service Reserve Fund hereinafter created is at least equal to the amount required to retire all outstanding 1966, 1978 and 1995 Bonds and parity bonds and paying all interest that will accrue thereon.

(C) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created by the 1966 and 1978 Resolutions and designated and identified as the "Water System Revenue Bond Debt Service Reserve Fund" (the "Debt Service Reserve Fund"), which shall continue to be maintained so long as there are outstanding any parity

bonds herein permitted to be issued on a parity with the 1966, 1978 and 1995 Bonds, except those parity bonds the original purchaser or purchasers of which have waived the benefit of, and any claim to, the Debt Service Reserve Fund. Parity bonds which may be issued and outstanding from time to time as hereinafter permitted and with respect to which the original purchaser or purchasers have not waived the benefit of and claim to the Debt Service Reserve Fund are hereafter referred to as "qualified parity bonds". The purchaser of the 1966 and 1978 Bonds, by its acceptance of the 1966 and 1978 Bonds, has elected, for itself and on behalf of all subsequent holders of the 1966 and 1978 Bonds, to waive the benefit of and any claim to the Debt Service Reserve Fund.

All moneys deposited in the Debt Service Reserve Fund from time to time shall be held and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the outstanding qualified parity bonds, if any, if and to the extent insufficient funds are available therefor in the Sinking Fund. Whenever the amount in the Debt Service Reserve Fund is less than the Reserve Amount, hereinafter defined, the amount necessary to restore the balance in the Debt Service Reserve Fund to the Reserve Amount shall be paid into the Debt Service Reserve Fund in thirty-six (36) equal monthly installments, each payable on the twentieth (20th) day of the month (except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day) from the Revenue Fund, after making the deposits set out in subsection (B) above, until the Reserve Amount is on deposit in the Debt Service Reserve Fund. The term "Reserve Amount" as used herein means an amount of money equal to the lesser of (i) the maximum principal and interest requirement on the outstanding qualified parity bonds in any year ending January 1, (ii) an amount equal to 125% of the average annual debt service on the outstanding qualified parity bonds in any year ending January 1, and (iii) an amount equal to 10% of the proceeds of all such qualified parity bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended.

Any amount in the Debt Service Reserve Fund in excess of the Reserve Amount shall be transferred to the Sinking Fund and applied as credit against payments into the Sinking Fund from the Revenue Fund on a monthly basis as described in the foregoing subsection (B).

(D) All moneys held in the Revenue Fund, the Sinking Fund and the Debt Service Reserve Fund shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation ("FDIC"), and all such deposits which cause the aggregate deposits of the District in any one bank to be in excess of the amount insured by FDIC shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the Revenue Fund and the Sinking Fund may, and the Debt Service Reserve Fund shall, be invested in Investment Obligations, as hereinafter defined, maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the credit of the Fund which supplied the funds for such investments, and the income from such investments shall be credited to the Sinking Fund; provided, however, if the amount in the Debt

Service Reserve Fund is less than the Reserve Amount, income from investments in the Debt Service Reserve Fund shall be credited to the Debt Service Reserve Fund until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Fund shall be valued at cost.

Investment income accruing to the Sinking Fund shall be credited against payments into the Sinking Fund from the Revenue Fund on a monthly basis as set out in the foregoing subsection (B) hereof.

As used herein, the term "Investment Obligations" shall have the meaning set out in Section 15 hereof.

(E) A separate and special fund or account of the District was created by the 1966 Resolution designated and identified as the District's "Depreciation Fund" (the "Depreciation Fund"). After observing the priority of deposits set forth in (A) through (D) above, which are cumulative, there shall be set apart and paid into the Depreciation Fund each month not less than \$1,020 (or more, if fixed by Resolution of the Commission of the District) from the remaining funds in the Revenue Fund, such monthly deposits to continue so long as any bonds payable from the income and revenues of the System remain outstanding and unpaid or until a minimum balance of \$122,400 is reached.

In addition to the above deposits from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn-out or obsolescent properties of the System, if the same be sold upon order of the Commission. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System (excluding initial deposits received in aid of a particular project) shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification as to the authorization for such withdrawal, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the Annual Budget of Current Expenses (as defined in Section 17 hereof), and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. The Depreciation Fund shall also be available for transfer to the Sinking Fund in order to avoid default in connection with any bonds payable from the Sinking Fund or to redeem or purchase Bonds in advance of maturity.

At any time when the accumulations in the Depreciation Fund shall exceed the anticipated current needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in Investment Obligations (as described in Section 15) maturing or subject to redemption at the option of the holder not later than the time anticipated to be needed by the District, but in any event not later than five (5) years after the date

of investment; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in the Depreciation Fund shall be carried to the credit of the Depreciation Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

(F) A separate and special fund or account of the District was created by the 1966 Resolution designated the District's "Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), which shall continue to be maintained for the benefit of the System and all bonds payable from the income and revenues of the System. The District covenants that it will transfer monthly from the moneys in the Revenue Fund, after making the transfers required by (A) through (E) above, to the Operation and Maintenance Fund sums sufficient to pay as they accrue the Current Expenses of operating and maintaining the System pursuant to the Annual Budget, for which provision is hereafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two-month period pursuant to the Annual Budget.

At any time when the accumulations in the Operation and Maintenance Fund shall exceed the anticipated current needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in Investment Obligations (as described in Section 15) maturing or subject to redemption at the option of the holder not later than the time anticipated to be needed by the District, but in any event not later than ninety (90) days after the date of investment; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in the Operation and Maintenance Fund shall be carried to the credit of the Operation and Maintenance Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

(G) Subject to the provisions of subsections (A) through (F) above, which are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty (60) days after the end of each fiscal year the balance of excess funds in the Revenue Fund on such date to the Depreciation Fund.

\* \* \*

All payments into the above special funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All moneys held in any of the above special funds shall be kept apart from all other District funds and shall be deposited in a bank or banks selected by the District from time to time (in each case, a "Depository Bank"), and all such deposits which cause the aggregate of all

deposits of the District in any Depository Bank to be in excess of the amount secured by FDIC shall (unless invested as herein authorized) be secured by a surety bond or bonds or by pledge of direct obligations or by guaranteed bonds or securities of the United States Government having a market value at least equivalent to such excess deposit.

**Section 15. Investments.** As used in this Resolution, the term "Investment Obligations" shall mean any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established pursuant to this Resolution: (i) general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, and any certificate or other evidence of an ownership interest in any such securities or in specified portions thereof consisting of the principal thereof or the interest thereon or any combination thereof; (ii) obligations of any agency or instrumentality of the United States of America the payment of principal of and interest on which is backed by the full faith and credit of the United States of America; (iii) savings accounts, interest-bearing time deposits or certificates of deposit in any national bank or bank chartered in Kentucky authorized to engage in the banking business the deposits of which shall be insured by the Federal Deposit Insurance Corporation ("FDIC") and having a combined capital and surplus aggregating not less than Two Million Dollars (\$2,000,000); provided, however, that each such deposit shall be continuously secured (to the extent not insured by FDIC) by lodging with a separate bank or trust company approved by the District, as custodian, collateral security in the form of obligations described in (i) or (ii) above having a market value (exclusive of accrued interest) at all times not less than the amount of such deposit (to the extent not insured by FDIC), which collateral security shall be valued by the District at least annually and must be unencumbered and not otherwise pledged and shall be subject to a perfected first lien for the benefit of the District; (iv) repurchase agreements with banks described in (iii) above, continuously secured as provided in (iii) above; (v) money market funds composed of securities described in (i) and (ii) above and rated AAA (or the equivalent thereof) by Standard and Poor's Ratings Group or Moody's Investors Service, Inc., provided that any such investment in money market funds shall not exceed six (6) months in duration; and (vi) bonds, notes or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and instrumentalities.

**Section 16. Rebate Fund.** The following terms when used hereinafter shall have the indicated meanings:

"Computation Period" means, with respect to the 1995 Bonds, the period of time over which Excess Earnings are required to be computed under Section 148(f) of the United States Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations thereunder.

"Cumulative Excess Earnings" means the amount of all Excess Earnings earned from the date of original delivery of the 1995 Bonds through the end of the relevant computation date, less the amount of any Excess Earnings paid to the United States pursuant to this Section.

"Excess Earnings" means an amount equal to the sum of (i) plus (ii) where:

(i) is the excess of

(a) the aggregate amount earned on all nonpurpose investments in which gross proceeds of the 1995 Bonds are invested (other than investments attributable to an excess described in this clause (i)), over

(b) the amount which would have been earned if such nonpurpose investments (other than amounts attributable to an excess described in this clause (i)) were invested at a rate equal to the yield on the 1995 Bonds; and

(ii) is any income attributable to the excess described in clause (i).

The sum of (i) plus (ii) shall be determined in accordance with Section 148(f) of the Code. As used herein, the terms "gross proceeds," "nonpurpose investments" and "yield" have the meanings assigned to them for purposes of Section 148(f) of the Code.

The Muhlenberg County Water District Water System Refunding Revenue Bonds, Series 1995 Rebate Fund (the "Rebate Fund"), is hereby created. Amounts from time to time held in the Rebate Fund, if any, shall be invested in Investment Obligations (to the extent practicable), shall not be subject to the pledge of this Resolution, shall not constitute a part of the funds held for the benefit of the holders of the 1995 Bonds and shall be dedicated to the United States of America to the extent of any obligation on the part of the District to rebate to the United States Cumulative Excess Earnings.

Within five days after the end of each Computation Period and within five days after the payment in full of all outstanding 1995 Bonds, the District shall calculate the amount of Cumulative Excess Earnings as of the end of that Computation Period or the date of such payment, and shall also determine the amount then on deposit in the Rebate Fund. If the amount then on deposit in the Rebate Fund is in excess of the Cumulative Excess Earnings, the District shall forthwith deposit that excess amount in the Sinking Fund. If the amount then on deposit in the Rebate Fund is less than the Cumulative Excess Earnings, the District shall within five days deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to the Cumulative Excess Earnings. Within 30 days after the end of the fifth anniversary date of the issuance of the 1995 Bonds and every such fifth anniversary date thereafter, the District shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 90% (or such greater percentage not in excess of 100% as the District may direct) of the Cumulative Excess Earnings as of the end of such fifth anniversary date. Within 60 days after the payment in full of all outstanding 1995 Bonds, the District shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 100% of the Cumulative Excess Earnings as of the date of such payment and any moneys remaining in the Rebate Fund following such payment shall be paid to the Sinking Fund.

Section 17. Covenants to 1995 Bondholders. The District hereby irrevocably covenants and agrees with the Registered Holders of the 1995 Bonds that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(A) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, and by the terms and provisions of this Resolution.

(B) It will at all times operate the System on a revenue-producing basis, and will permit no free services to be rendered or afforded thereby.

(C) It will maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside in the Depreciation Fund.

(D) So long as any of the 1966, 1978 and 1995 Bonds are outstanding, it will not sell or otherwise dispose of any of the System facilities or any part thereof, and, except as provided for in this Resolution, it will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the 1966, 1978 and 1995 Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any of its System facilities, provided that:

(i) it is in compliance with all covenants and undertakings in connection with all of its bonds then outstanding and payable from the revenues of the System;

(ii) it will, in the event of sale, apply the proceeds to either (1) redemption of outstanding bonds in accordance with the provisions governing prepayment of bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility the revenues of which shall be incorporated into the System as hereinbefore provided;

(iii) it certifies, prior to any abandonment of use, that the facility to be abandoned is no longer economically feasible of producing net revenues; and

(iv) notwithstanding all of the foregoing, no such sale, abandonment or transfer of System facilities shall be made so long as USDA owns any of the 1995 Bonds, without the written consent and approval of USDA.

(E) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by the System; and the same shall be reasonable and just, taking into

account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding bonds as aforesaid and the accruing interest thereon, and the accumulation of any required reserves; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and shall, if necessary, be adjusted from time to time in order to comply herewith; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and to provide 1.20 times coverage of average annual principal and interest on all bonds payable from the Sinking Fund, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the date of issuance of the 1995 Bonds, the District will adopt a Budget of Current Expenses for the System for the remainder of the then current fiscal year of the System, and thereafter, on or before the first day of each fiscal year so long as any 1995 Bonds are outstanding, it will adopt an Annual Budget of Current Expenses for the ensuing fiscal year, and will file a copy of each such Budget, and of any amendments thereto, in the office of the Secretary of the District, and so long as USDA owns any of the 1966 Bonds or parity bonds, will file a copy thereof with USDA and will furnish copies thereof to the holder of any 1995 Bond upon written request. The term "Current Expenses," as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the Sinking Fund and the Debt Service Reserve Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Commission of the District determining that such expenses are necessary in order to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of gross revenues to be derived from operation of the System for each fiscal year, and to the extent that said gross revenues are insufficient to provide for of all payments required to be made into the Sinking Fund and the Debt Service Reserve Fund during such ensuing fiscal year, and to make required payments into the Depreciation Fund and the Operation and Maintenance Fund, the District covenants and agrees that it will revise its rates and charges for services rendered by the System, so that the same will be adequate to meet all of such requirements.

(F) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System without first obtaining the written determination of a consulting engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in this Resolution.

(G) It will at all times segregate the revenues of the System from all other revenues, moneys and funds of the District, and will promptly and regularly make application and distribution thereof into the special funds provided in this Resolution, in the amounts and with due regard for the priorities herein attributed thereto.

(H) It will keep proper books of record and account, separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries of all transactions relating to the System, and the same shall be available and open to inspection upon reasonable written notice by any 1995 Bondholder, and any agent or representative of a 1995 Bondholder.

(I) It will, within ninety (90) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state-licensed certified public accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financial condition and records of the System, including the status of the several funds hereinbefore created and continued, the status of the insurance and fidelity bonding, the number and type of connections, and the current rates and charges, with comments of the auditor concerning whether the books and records are being kept in compliance with this Resolution and in accordance with recognized accounting practices, and will promptly cause a copy of the Audit Report to be filed in the office of the Secretary where it will be available for public inspection, and will promptly mail a copy thereof to USDA and to any holder of 1995 Bonds upon written request. If requested in writing to do so, the District will furnish to any bondholder a condensed form of the balance sheet, and a condensed form of the operating report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided. Provided, so long as USDA holds any of the bonds of the District, the District shall furnish operating and other financial statements in such form and substance and for such periods as may be requested by USDA.

(J) Any holder of 1995 Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by the District and its officers and agents of all duties imposed or required by law or this Resolution in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof.

(K) If there be any default in the payment of the principal of or interest on any of the 1995 Bonds, then upon the filing of suit by any holder of the 1995 Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of Current

Expenses, and to apply the revenues in conformity with this Resolution and the provisions of said statute laws of Kentucky aforesaid.

(L) The District will cause each officer or other person (other than Depository Banks) having custody of any moneys administered under the provisions of this Resolution to be bonded at all times in an amount at least equal to the maximum amount of such moneys in his custody at any time; each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Commission, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from moneys available in the Operation and Maintenance Fund.

(M) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of, or being appurtenant to, the System to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions, the premiums therefor to be paid from the Operation and Maintenance Fund; and will deposit all sums collected under the terms of such policies in the Depreciation Fund. Such insurance shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty per centum (80%) of the full insurable value of the damaged facility.

(N) The District will procure and at all times maintain public liability insurance relating to the operation of the System, with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than \$100,000 from claims for damage to property of others which may arise from the District's operation of the System.

(O) The District will carry suitable workers' compensation insurance in accordance with law.

(P) If the District owns or operates a vehicle in the operation of the System, the District will procure and at all times maintain vehicular public liability insurance with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death, and not less than \$100,000 against claims for damage to property of others which may arise from the District's operation of vehicles. Provided, notwithstanding (M), (N), (O) and (P) above, that so long as USDA holds any bonds of the District, the District will procure and maintain insurance of such types and amounts as USDA may specify.

(Q) So long as USDA is the holder of any bonds of the District, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of such bonds held by USDA without immediately prepaying all of

such bonds held by USDA the lien of which is being so defeased or terminated.

Section 18. Statutory Mortgage Lien Acknowledged. A statutory mortgage lien upon the System, together with all appurtenances and additions thereto and extensions thereof, is granted and created by Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holders of the 1995 Bonds and parity bonds; and said statutory mortgage lien is hereby recognized and shall be effective upon delivery of the 1995 Bonds and shall continue in full force and effect so long as there shall remain unpaid any part of the principal of or interest on the 1995 Bonds.

Section 19. Additional Bonds. The 1966, 1978 and 1995 Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The District hereby reserves the right and privilege of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the 1966, 1978 and 1995 Bonds and any outstanding parity bonds (herein sometimes referred to as "additional parity bonds") in order to pay the costs of extensions, additions and improvements to the System, provided that (a) the written consent of the holders of all 1966, 1978 and 1995 Bonds and any outstanding parity bonds is obtained or (b) either of the conditions set forth in (i) or (ii) below is met:

(i) The net income and revenues of the System for the fiscal year preceding the year in which such additional parity bonds are to be issued were at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to all 1966, 1978 and 1995 Bonds and parity bonds which are then outstanding and the additional parity bonds then proposed to be issued. The term "net income and revenues" as herein used is defined as gross income and revenues of the System (including all payments to the Revenue Fund and interest earnings accruing to the Sinking Fund, the Depreciation Fund and the Operation and Maintenance Fund) less the sum of Current Expenses as defined in subsection (E) of Section 17 hereof. Such showing of net income and revenues for such preceding fiscal year may be represented by the report of the auditors.

(ii) A statement is filed with the Secretary of the District by (a) an independent certified public accountant or firm of certified public accountants not in the regular employ of the District on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the District on a monthly salary basis and of recognized expertise and good reputation in the field of water engineering and licensed in Kentucky, reciting the opinion based upon necessary investigation that the net income and revenues of the System as defined in (i) above for twelve (12) consecutive

months out of the eighteen (18) months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to the 1966, 1978 and 1995 Bonds and any parity bonds then outstanding and the proposed additional parity bonds. The net income and revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional parity bonds, and also to reflect any increase in such net income and revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such additional parity bonds; but such latter adjustments shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into prior to the issuance of such additional parity bonds. All such adjustments to reflect any revision of rates and charges or an increase in net income and revenues by reason of extensions, additions and improvements to the System as aforesaid shall be based upon written certification by (a) an independent professional engineer or firm of professional engineers not in the employ of the District on a monthly salary basis and of recognized expertise and good reputation in the field of water engineering and licensed in Kentucky or (b) an independent certified public accountant or firm of certified public accountants not in the employ of the District on a monthly salary basis.

The District hereby further reserves the right and privilege of issuing additional parity bonds for the purpose of refunding the 1966, 1978 and 1995 Bonds and any additional parity bonds, or any portion thereof, as may be outstanding, provided that before any additional parity bonds are issued for such purpose, there shall have been procured and filed with the Secretary of the District either (a) the written consent of the holders of all 1966, 1978 and 1995 Bonds and any outstanding parity bonds (other than the bonds being refunded) to such issuance or (b) a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion based upon necessary investigation that after the issuance of such additional parity bonds, the net income and revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such additional parity bonds, after taking into account the revised maximum annual debt service resulting from the issuance of such additional parity bonds and from the elimination of the bonds being refunded thereby, are equal to not less than 120% of the maximum annual debt service requirement for any year ending January 1 with respect to the 1966, 1978 and 1995 Bonds and any additional parity bonds then outstanding and the proposed additional parity bonds and calculated in the manner specified above.

The original purchaser or purchasers of a series of additional parity bonds may waive the benefit of and any claim to the Debt Service Reserve Fund, in which event such bonds shall not be secured by or payable from the Debt Service Reserve Fund; and the District may make it a condition to the original sale of any series of additional parity bonds that the purchaser or purchasers thereof, by offering to purchase or by purchasing the same, has agreed to such waiver.

The interest payment dates for all such additional parity bonds shall be semiannually on January 1 or July 1 of each year, and the principal maturities thereof shall be on January 1 of the year in which any such principal is scheduled to become due.

The additional parity bonds, the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the income and revenues of the System on a parity with the 1966, 1978 and 1995 Bonds, and shall not be deemed to include or prohibit the issuance of other obligations the security and source of payment of which is subordinate and subject to the priority of the payments into the Sinking Fund and the Debt Service Reserve Fund for account of the 1966, 1978 and 1995 Bonds and any parity bonds.

Section 20. Tax Covenants and Representations. The District certifies, covenants and agrees to and for the benefit of the 1995 Bondholders that so long as any of the 1995 Bonds remain outstanding, moneys on deposit in any fund or account in connection with the 1995 Bonds, whether or not such moneys were derived from the proceeds of the sale of the 1995 Bonds or from any other sources, will not be invested or used in a manner which will cause the 1995 Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the United States Internal Revenue Code of 1986, as amended (the "Code"), and any lawful regulations promulgated or proposed thereunder, as the same presently exist, or may from time to time hereafter be amended, supplemented or revised. The Chairman, Secretary and/or Treasurer as the officers of the District charged with the responsibility for issuing the 1995 Bonds are authorized and directed, for and on behalf of the District, to execute all certificates and other documents that may be required for evidencing compliance with federal tax rules, and any representations, certifications and covenants contained in such certificates and other documents so executed shall be deemed to constitute representations, certifications and covenants of the District.

The District further represents, warrants, agrees, covenants and certifies as follows:

(A) Within the meaning of Section 141 of the Code, (i) less than 10% of the proceeds of the 1995 Bonds, if any, will be applied for any private business use, and the payment of principal of or interest on less than 10% of the amount of the 1995 Bonds, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of such property, or will be derived from payments in respect of such property; (ii) at least 90% of the proceeds of the 1995 Bonds will be applied for a governmental use of the District; (iii) any private business use of the System will be related to such governmental use of the District and will not be unrelated or disproportionate; and (iv) none of the proceeds of the 1995 Bonds will be used, directly or indirectly, to make or finance loans to private persons.

(B) Within the meaning of Section 148(f) of the Code, the County of Muhlenberg (the "County") is a governmental unit with general taxing powers that has irrevocably allocated to the District a portion of its small issuer exemption from the arbitrage rebate rules for 1995 under Section 148(f)(4)(D) of the Code in an amount at least equal to the final principal amount of the 1995 Bonds, none of the 1995 Bonds is a private activity bond, 95% or more of the net proceeds

of the 1995 Bonds will be used for local public and governmental activities of the District and the aggregate face amount of all tax-exempt bonds (other than private activity bonds) issued by the County and all of its subordinate entities, including the District, during the calendar year 1995 is not reasonably expected to exceed \$5,000,000. Further, all proceeds of the 1995 Bonds shall be expended for the purposes of the issue within six months from the date of issuance of the 1995 Bonds, with the exception of that portion of the proceeds applied to fund the Debt Service Reserve Fund. The District will take all action necessary to comply with any applicable arbitrage rebate requirements of Section 148(f) of the Code in respect of the 1995 Bonds.

(C) The 1995 Bonds are not federally guaranteed within the meaning of Section 149(b) of the Code.

(D) The District will comply with the information reporting requirements of Section 149(e) of the Code.

(E) Within the meaning of Section 265(b) of the Code, the 1995 Bonds are "qualified tax-exempt obligations" and are hereby so designated by the District for purposes of Section 265(b)(3) of the Code, and in this connection the District states that the reasonably anticipated amount of qualified tax-exempt obligations (other than private activity bonds) which will be issued by the District during the year 1995 does not exceed \$10,000,000.

The District will at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the 1995 Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

Section 21. Defeasance. The District may, at any time, cause the pledge of the income and revenues securing the 1995 Bonds to be defeased and released, but only under circumstances which do not cause interest on the 1995 Bonds to be included in gross income for federal income tax purposes, by paying an amount into an escrow fund sufficient, when invested in direct obligations of or obligations which are fully guaranteed by the United States of America, or in certificates of deposit of a bank or banks which are fully secured by a pledge of direct obligations of or obligations fully guaranteed by the United States of America, to assure the availability in such escrow fund of adequate amounts to pay all principal of and interest on the 1995 Bonds as and when the same become due and to call for redemption and to redeem and retire such 1995 Bonds as the District Commission may determine, on such optional redemption date or dates as the Commission may determine, including any redemption premium and all costs and expenses in connection with such redemption. The described investments in such escrow fund shall have such maturities so as to assure there will be sufficient funds for the stated purpose. If such defeasance is to be accomplished, in whole or in part, pursuant to an optional redemption, the District shall cause all necessary steps to be taken to mail the required notice of the redemption of the 1995 Bonds to be redeemed.

Section 22. Sale of 1995 Bonds. The Chairman is authorized to approve, execute and cause to be published in accordance with Chapter 424 of the Kentucky Revised Statutes an appropriate form of Notice of Bond Sale soliciting sealed, competitive bids for the purchase of all the 1995 Bonds, such bids to be received in the office of the Manager of the District until a fixed time on the day of or the day before a regular, adjourned or special meeting of the District Commission, as the Chairman may determine, after which fixed time the sealed competitive bids theretofore received in said Manager's office shall be opened by him and then referred to the Commission for public consideration at such meeting. Such Notice of Bond Sale shall be in such form as may be prepared by the District's Bond Counsel and recommended by the District's Financial Advisor in connection with the issuance of the 1995 Bonds.

The public offering of the 1995 Bonds shall be upon the following terms and conditions and such other terms and conditions as the Chairman may determine:

(A) Bids shall be for the entire issue and shall be submitted upon an Official Bid Form in order to provide for uniformity in submission of bids and ready determination of the best bid.

(B) Bidders shall be required to bid not less than 98% of par plus accrued interest from the date of the 1995 Bonds to the date of delivery; provided that upon the recommendation of the Financial Advisor, the Chairman is authorized to approve a change in the required minimum and/or maximum bid price, and also to change the date and hour of the sale.

(C) No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer to Old National Trust Company -- Kentucky, Greenville, Kentucky, for the credit of the District, an amount equal to 2% of the principal amount of 1995 Bonds awarded by the close of the business day following the day of award of the 1995 Bonds. Such good faith amount will be applied (without interest) to the purchase price upon delivery of the 1995 Bonds.

(D) Bidders have the option of specifying that all of the principal amount of 1995 Bonds maturing on any two or more consecutive dates given in the schedule in Section 3 hereof may, in lieu of maturing on each of such dates, be considered to comprise one maturity of 1995 Bonds ("Term Bonds") scheduled to mature on the latest of such dates and be subject to mandatory sinking fund redemption at par in the manner described in Section 4 hereof on each of the dates and in the principal amounts as given in said schedule, except for the principal amount of 1995 Bonds scheduled to mature on the date of maturity of the Term Bonds, which shall mature on such date. Bidders may specify one or more of such Term Bonds.

(E) Bidders must stipulate an interest rate or rates in a multiple of 1/8 or 1/20 of 1%. There is no limit on the number of different interest rates which may be specified by any bidder, subject to compliance with the other bidding conditions, provided that interest rates must be on an ascending scale, in that the rate for 1995 Bonds of any maturity may not be less than the rate

stipulated for any preceding maturity, and all 1995 Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

(F) The right to reject bids for any reason deemed advisable by the District Commission, and the right to waive any possible informalities or irregularities in any bid which, in the judgment of the District Commission, shall be minor or immaterial is expressly reserved.

(G) CUSIP identification numbers may be printed on the 1995 Bonds at the expense of the purchaser. Neither the failure to print a CUSIP number on any 1995 Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the 1995 Bonds in accordance with the terms of the purchase agreement.

(H) The determination of the best bid will be made on the basis of net interest cost and under the terms and conditions specified herein and in the Official Terms and Conditions of Bond Sale hereinafter approved. The District will, at the meeting of the District Commission which will be held to act upon the receipt of bids for the 1995 Bonds, accept or reject such bids; provided, however, the District reserves the right to increase or to decrease by an amount not exceeding \$200,000 (in \$5,000 denominations) the total amount of 1995 Bonds sold to such best bidder by increasing or decreasing any of the stipulated principal maturities. In the event of any such adjustment, no rebidding or recalculation of the bid submitted will be required or permitted. The price at which such adjusted amount of 1995 Bonds will be sold will be at the same price per \$1,000 of 1995 Bonds as the price bid per \$1,000 for the \$2,360,000 of 1995 Bonds.

Further, upon determination of the best bid, the District shall have the right within its sole discretion, without increasing or decreasing the aggregate principal amount of the 1995 Bonds sold, to increase or decrease (in increments of \$5,000) the amount of any annual principal maturities in order to promote level debt service on the 1995 Bonds and outstanding bonds. In the event of any such adjustments, which shall be made by resolution of the Commission, no rebidding or recalculation of a submitted bid will be required or permitted.

It shall not be necessary that the published Notice of Bond Sale set forth any or all of the special conditions stated herein, but the substance thereof shall be disclosed to prospective bidders either in the Notice of Bond Sale, the Official Terms and Conditions of Bond Sale or the Official Bid Form. The Chairman and/or Secretary are authorized in connection with the 1995 Bond sale to sign and cause to be furnished to any interested party upon request an Official Terms and Conditions of Bond Sale containing the above conditions, together with additional requirements and information relating to the sale and delivery of the 1995 Bonds, and giving a detailed description of the 1995 Bonds, all calculated to bring about uniformity in bidding.

Suggested forms of Notice of Bond Sale, Official Terms and Conditions of Bond Sale and Official Bid Form having been prepared and submitted according to the recommendation of the District's Financial Advisor by Bond Counsel, and the same having been examined by the

District Commission and found to be in order, the same are hereby approved and adopted for use in connection with the 1995 Bond sale.

In addition, in connection with the 1995 Bond sale the District has caused or is causing to be prepared its preliminary Official Statement (the "Official Statement"), setting forth relevant information concerning the sale and issuance of the 1995 Bonds, including, inter alia, financial data relating to the System. The Official Statement and the use thereof by the District in offering and selling the 1995 Bonds is hereby expressly approved, the District, through certain of its officials and employees, having reviewed the Official Statement and having found the factual statements and the data therein to be accurate, and the Chairman is authorized to sign the same on behalf of the District, with such modifications as may be necessary or desirable and approved by the Chairman, as evidenced by such execution. The Official Statement shall be supplemented following sale of the 1995 Bonds, and the Chairman is authorized to approve and sign such supplemented or final Official Statement on behalf of the District. The Official Statement is in a form "deemed final" by the District for purposes of SEC Rule 15c2-12(b)(1) but, as aforesaid, is subject to supplementation and completion following sale of the 1995 Bonds.

The Chairman and other officers of the District are further authorized to enter into and to execute on behalf of the District any and all certificates, opinions, instruments and documents necessary or desirable, upon the advice of counsel, to effectuate the issuance of the 1995 Bonds.

Upon the date and at the hour set forth for the opening of purchase bids, as provided in the instruments hereinabove approved, the sealed bids theretofore received by the Manager of the District shall be publicly opened and examined by the Manager, and shall then be referred to the District's Financial Advisor for assistance in determining the best bid. The District Commission shall meet on the day of such receipt of bids in order to take official action thereon. If there shall be one or more bids which conform in all respects to the prescribed terms and conditions, the same shall be compared and the District Commission will accept the best of such bids, as measured in terms of the lowest net interest cost to the District, subject to the terms prescribed in the Official Terms and Conditions of Bond Sale. If upon the basis of the foregoing the District Commission accepts a purchase bid for the 1995 Bonds, it will adopt a resolution to that effect on such sale date and shall supply proper evidence of such acceptance to the bidder submitting the accepted purchase bid, and thereupon arrangements shall be made for the 1995 Bonds to be prepared in accordance therewith.

Section 23. Resolution as Contract. The provisions of this Resolution shall constitute a contract between the District and the holders of the 1995 Bonds and any additional parity bonds, and after the issuance of any of said bonds no material change, variation or alteration of any kind in the provisions of this Resolution shall be made in any manner without the consent of such holders and except as herein provided, until such time as all of said bonds issued hereunder and interest thereon have been paid or provided for in full by defeasance as provided in Section 21 hereof or as otherwise provided herein.

Section 24. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Resolution, is not a business day for the Paying Agent and Bond Registrar, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the nominal date provided in this Resolution, and no interest shall accrue for the period after such nominal date.

Section 25. Severability. If any section, paragraph, clause or provision of this Resolution shall be held to be invalid or ineffective for any reason, the remainder of this Resolution shall remain in full force and effect, it being expressly hereby found and declared that the remainder of this Resolution would have been adopted despite the invalidity of such section, paragraph, clause or provision.

Section 26. Miscellaneous Provisions. (a) All resolutions or parts thereof in conflict herewith are, to the extent of such conflict, hereby repealed.

(b) This Resolution shall take effect immediately upon its adoption as provided by law.

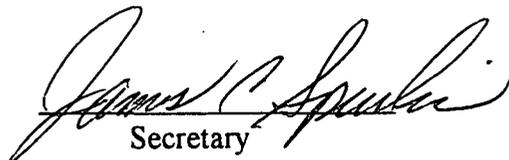
(c) The captions or headings in this Resolution, and in the Table of Contents preceding this Resolution, are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Resolution.

ADOPTED BY THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT at a meeting held on the 16th day of October, 1995, signed by the Chairman, attested under seal by the Secretary, and declared to be in full force and effect.

(SEAL)

  
Chairman of the Commission

ATTEST:

  
Secretary

CERTIFICATION

The undersigned, Secretary of the Commission of Muhlenberg County Water District, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of said District at a properly convened meeting of the Commission of said District held on the 16th day of October, 1995, as shown by the official records of said District in my custody and under my control, and that said Resolution is in full force and effect.

WITNESS my hand this 26 day of October, 1995.

  
Secretary

A RESOLUTION OF THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT AMENDING AND SUPPLEMENTING RESOLUTIONS OF THE COMMISSION ADOPTED ON JULY 22, 1966, FEBRUARY 2, 1978, AND MARCH 24, 1986, AS AMENDED AND SUPPLEMENTED ON FEBRUARY 2, 1988, RELATING TO THE ISSUANCE OF THE DISTRICT'S OUTSTANDING SERIES OF WATER SYSTEM REVENUE BONDS

WHEREAS, the Commission of Muhlenberg County Water District (the "District"), Muhlenberg County, Kentucky, adopted (a) a Resolution on March 1, 1966 (the "1966 Resolution"), authorizing the issuance of the District's Water Works System Revenue Bonds (the "1966 Bonds"), (b) a Resolution on February 2, 1978 (the "1978 Resolution"), authorizing the issuance of the District's Water System Revenue Bonds, Series of 1978 (the "1978 Bonds"), and (c) a Resolution on March 24, 1986, as amended and supplemented on February 2, 1988 (collectively the "1987 Resolution"), authorizing the issuance of the District's Water System Revenue Bonds, Series 1987 (the "1987 Bonds"), all of which are held by the United States of America, Department of Agriculture ("USDA"), formerly acting through the Farmers Home Administration; and the outstanding 1966, 1978 and 1987 Bonds are payable from and secured by a pledge of the revenues of the District's water system on a parity one with another; and

WHEREAS, with the consent of USDA, the District desires to amend and supplement the 1966, 1978 and 1987 Resolutions in order to facilitate the public sale and issuance of bonds, ranking on a parity with the 1966 and 1978 Bonds; to refund and retire the 1987 Bonds (the "Refunding Bonds");

NOW, THEREFORE, THE COMMISSION OF MUHLENGERG COUNTY WATER DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby confirmed and adopted as a part of this Resolution.

Section 2. Section 9 of the 1978 Resolution is hereby amended and supplemented to read in its entirety as follows:

"Operation and Revenues of System; Funds and Accounts. From and after issuance and delivery of the bonds herein authorized to be issued (the '1978 Bonds'), and so long as any of the 1978 Bonds or parity bonds remain outstanding and unpaid, the System shall continue to be operated on a fiscal year basis beginning each January 1 and ending on the last day of the next December, as at present, and on that basis the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

"(A) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created by the Resolution adopted on July 22, 1966 (the '1966

Resolution'), authorizing issuance of the District's Water Works Revenue Bonds dated September 7, 1966 (the '1966 Bonds'), designated and identified as the District's 'Water Revenue Fund' (the 'Revenue Fund'), which shall continue to be maintained by the District, and into which shall be deposited all income and revenues of the System (to the extent not otherwise provided to be deposited hereinafter). The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District, as permitted by applicable statutes, as follows:

"(B) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was created in and by the 1966 Resolution and designated and identified as the 'Waterworks Bond and Interest Sinking Fund' (the 'Sinking Fund' or the 'Bond Fund'), which shall continue to be maintained so long as any of the 1966 Bonds, 1978 Bonds or parity bonds herein permitted to be issued are outstanding; and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the 1966 Bonds, 1978 Bonds and any parity bonds hereafter issued and outstanding pursuant to the provisions of this Resolution.

"There shall be set aside and transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Sinking Fund sums sufficient to pay when due the principal and interest requirements on the 1966 and 1978 Bonds and any parity bonds. Specifically, there shall be paid into the Sinking Fund on or before the 20th day of each month, on account of the 1966 Bonds and 1978 Bonds, not less than the following:

- (i) a sum which together with other funds available in the Sinking Fund for such purpose will be equal to one-sixth (1/6) of the next succeeding interest installment to become due on all 1966 Bonds and 1978 Bonds then outstanding; and
- (ii) a sum which together with other funds available in the Sinking Fund for such purpose will be equal to one-twelfth (1/12) of the principal of all 1966 Bonds and 1978 Bonds maturing on the next succeeding January 1.

"In the event additional parity bonds are issued pursuant to the conditions and restrictions hereinafter prescribed in that connection, the monthly deposits to the Sinking Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

"If for any reason there should be a failure to pay into the Sinking Fund the full amounts above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the Sinking Fund from the first available income and revenues of the System, subject to the aforesaid priorities.

"No further payments need be made into the Sinking Fund if and when the amount held therein and in the Debt Service Reserve Fund hereinafter created is at least equal to the amount required to retire all outstanding 1966 Bonds and 1978 Bonds and parity bonds and paying all interest that will accrue thereon.

"(C) A separate and special fund or account of the District, distinct and apart from all other funds and accounts, is hereby created and designated and identified as the 'Water System Revenue Bond Debt Service Reserve Fund' (the 'Debt Service Reserve Fund'), which shall be maintained so long as there are outstanding any parity bonds herein permitted to be issued on a parity with the 1966 and 1978 Bonds, except those parity bonds the original purchaser or purchasers of which have waived the benefit of, and any claim to, the Debt Service Reserve Fund. Parity bonds which may be issued and outstanding from time to time as hereinafter permitted and with respect to which the original purchaser or purchasers have not waived the benefit of and claim to the Debt Service Reserve Fund are hereafter referred to as 'qualified parity bonds.' The purchaser of the 1966 and 1978 Bonds, by its acceptance of the 1966 and 1978 Bonds, shall be deemed to have elected, for itself and on behalf of all subsequent holders of the 1966 and 1978 Bonds, to waive the benefit of and any claim to the Debt Service Reserve Fund.

"All moneys deposited in the Debt Service Reserve Fund from time to time shall be held and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the outstanding qualified parity bonds, if any, if and to the extent insufficient funds are available therefor in the Sinking Fund. Whenever the amount in the Debt Service Reserve Fund is less than the Reserve Amount, hereinafter defined, the amount necessary to restore the balance in the Debt Service Reserve Fund to the Reserve Amount shall be paid into the Debt Service Reserve Fund in thirty-six (36) equal monthly installments, each payable on the twentieth (20th) day of the month (except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day) from the Revenue Fund, after making the deposits set out in subsection (B) above, until the Reserve Amount is on deposit in the Debt Service Reserve Fund. The term 'Reserve Amount' as used herein means an amount of money equal to the lesser of (i) the maximum principal and interest requirement on the outstanding qualified parity bonds in any year ending January 1, (ii) and amount equal to 125% of the average annual debt service on the outstanding qualified parity bonds in any year ending January 1, and (iii) an amount equal to 10% of the proceeds of all such qualified parity bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended.

"Any amount in the Debt Service Reserve Fund in excess of the Reserve Amount shall be transferred to the Sinking Fund and applied as credit against payments into the Sinking Fund from the Revenue Fund on a monthly basis as described in the foregoing subsection (B).

"(D) All moneys held in the Revenue Fund, the Sinking Fund and the Debt Service Reserve Fund shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation ('FDIC'), and all such deposits which cause the aggregate deposits of the District in any one bank to be in excess of the amount insured by FDIC shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the Revenue Fund and the Sinking Fund may, and the Debt Service Reserve Fund shall, be invested in Investment Obligations, as hereinafter defined, maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the

credit of the Fund which supplied the funds for such investments, and the income from such investments shall be credited to the Sinking Fund; provided, however, if the amount in the Debt Service Reserve Fund is less than the Reserve Amount, income from investments in the Debt Service Reserve Fund shall be credited to the Debt Service Reserve Fund until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Fund shall be valued at cost.

"Investment income accruing to the Sinking Fund shall be credited against payments into the Sinking Fund from the Revenue Fund on a monthly basis as set out in the foregoing subsection (B) hereof.

"As used herein, the term 'Investment Obligations' shall mean any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established pursuant to this Resolution: (i) general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, and any certificate or other evidence of an ownership interest in any such securities or in specified portions thereof consisting of the principal thereof or the interest thereon or any combination thereof; (ii) obligations of any agency or instrumentality of the United States of America the payment of principal of and interest on which is backed by the full faith and credit of the United States of America; (iii) savings accounts, interest-bearing time deposits or certificates of deposit in any national bank or bank chartered in Kentucky authorized to engage in the banking business the deposits of which shall be insured by the FDIC and having a combined capital and surplus aggregating not less than Two Million Dollars (\$2,000,000); provided, however, that each such deposit shall be continuously secured (to the extent not insured by FDIC) by lodging with a separate bank or trust company approved by the District, as custodian, collateral security in the form of obligations described in (i) or (ii) above having a market value (exclusive of accrued interest) at all times not less than the amount of such deposit (to the extent not insured by FDIC), which collateral security shall be valued by the District at least annually and must be unencumbered and not otherwise pledged and shall be subject to a perfected first lien for the benefit of the District; (iv) repurchase agreements with banks described in (iii) above, continuously secured as provided in (iii) above; (v) money market funds composed of securities described in (i) and (ii) above and rated AAA (or the equivalent thereof) by Standard and Poor's Corporation or Moody's Investors Service, Inc., provided that any such investment in money market funds shall not exceed six (6) months in duration; and (vi) bonds, notes or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and instrumentalities.

"(E) A separate and special fund or account of the District was created by the 1966 Resolution designated and identified as the District's 'Depreciation Fund' (the 'Depreciation Fund'). After observing the priority of deposits set forth in (A) through (D) above, which are cumulative, there shall be set apart and paid into the Depreciation Fund each month not less than \$1,020 (or more, if fixed by Resolution of the Commission of the District) from the remaining funds in the Revenue Fund, such monthly deposits to continue so long as any bonds payable from the income and revenues of the System remain outstanding and unpaid or until a minimum balance of \$122,400 is reached.

"In addition to the above deposits from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn-out or obsolescent properties of the System, if the same be sold upon order of the Commission. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System (excluding initial deposits received in aid of a particular project) shall be paid, as received, into the Depreciation Fund.

"The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification as to the authorization for such withdrawal, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the Annual Budget of Current Expenses (as defined in Section 10 hereof), and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. The Depreciation Fund shall also be available for transfer to the Sinking Fund in order to avoid default in connection with any bonds payable from the Sinking Fund or to redeem or purchase Bonds in advance of maturity.

"At any time when the accumulations in the Depreciation Fund shall exceed the anticipated current needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in Investment Obligations (as described in subsection (D) of this Section) maturing or subject to redemption at the option of the holder not later than the time anticipated to be needed by the District, but in any event not later than five (5) years after the date of investment; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in the Depreciation Fund shall be carried to the credit of the Depreciation Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

"(F) A separate and special fund or account of the District was created by the 1966 Resolution designated the District's 'Operation and Maintenance Fund' (the 'Operation and Maintenance Fund'), which shall continue to be maintained for the benefit of the System and all bonds payable from the income and revenues of the System. The District covenants that it will transfer monthly from the moneys in the Revenue Fund, after making the transfers required by (A) through (E) above, to the Operation and Maintenance Fund sums sufficient to pay as they accrue the Current Expenses of operating and maintaining the System pursuant to the Annual Budget, for which provision is hereafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two-month period pursuant to the Annual Budget.

"At any time when the accumulations in the Operation and Maintenance Fund shall exceed the anticipated current needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in Investment Obligations (as described in subsection (D) of this Section) maturing or subject to redemption at the option of the holder not later than the time anticipated to be needed by the District, but in any event not later than ninety

(90) days after the date of investment; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in the Operation and Maintenance Fund shall be carried to the credit of the Operation and Maintenance Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

"(G) Subject to the provisions of subsections (A) through (F) above, which are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty (60) days after the end of each fiscal year the balance of excess funds in the Revenue Fund on such date to the Depreciation Fund.

\* \* \*

"All payments into the above special funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

"All moneys held in any of the above special funds shall be kept apart from all other District funds and shall be deposited in a bank or banks selected by the District from time to time (in each case, a 'Depository Bank'), and all such deposits which cause the aggregate of all deposits of the District in any Depository Bank to be in excess of the amount secured by FDIC shall (unless invested as herein authorized) be secured by a surety bond or bonds or by pledge of direct obligations or by guaranteed bonds or securities of the United States Government having a market value at least equivalent to such excess deposit."

Section 3. The provisions of the 1966 Resolution relating to operation and revenues of the System and funds and accounts are also hereby amended and supplemented as set out in the foregoing Section 2 of this Resolution, provided that references to the 1978 Bonds are deleted. The provisions of Section 7 of the 1987 Resolution are similarly amended and supplemented as set out in the foregoing Section 2, provided that references to the 1987 Bonds, as herein defined, are added at the appropriate places.

Section 4. It is acknowledged that in connection with the issuance of parity bonds as hereinafter authorized on a parity with the 1966 and 1978 Bonds, the District may be required in its authorizing resolutions to establish one or more funds with respect to, and for the purpose of complying with the provisions of, the rebate provisions of Section 148(f) of the United States Internal Revenue Code of 1986, as amended, in order to assure that interest on such parity bonds will not be excluded from gross income for federal and Kentucky income tax purposes. Holders of the 1966 and 1978 Bonds and any such parity bonds shall, by the acceptance of such bonds, be deemed to have accepted and approved such actions by the District.

Section 5. Section 11 of the 1978 Resolution together with the comparable provisions of the 1966 Resolution and Section 9 of the 1987 Resolution are hereby amended and restated to

read in their entirety as follows (provided that in the case of (a) the 1966 Resolution references to the 1978 Bonds shall be deleted and (b) the 1987 Resolution references to the 1987 Bonds, as herein defined, shall be added at the appropriate places):

"Additional Bonds. The 1966 and 1978 Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

"The District hereby reserves the right and privilege of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the 1966 and 1978 Bonds and any outstanding parity bonds (herein sometimes referred to as 'additional parity bonds') in order to pay the costs of extensions, additions and improvements to the System, provided that (a) the written consent of the holders of all 1966 and 1978 Bonds and any outstanding parity bonds is obtained or (b) either of the conditions set forth in (i) or (ii) below is met:

(i) The net income and revenues of the System for the fiscal year preceding the year in which such additional parity bonds are to be issued were at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to all 1966 and 1978 Bonds and parity bonds which are then outstanding and the additional parity bonds then proposed to be issued. The term 'net income and revenues' as herein used is defined as gross income and revenues of the System (including all payments to the Revenue Fund and interest earnings accruing to the Sinking Fund, the Depreciation Fund and the Operation and Maintenance Fund) less the sum of Current Expenses as defined in subsection (E) of Section 10 hereof. Such showing of net income and revenues for such preceding fiscal year may be represented by the report of the auditors.

(ii) A statement is filed with the Secretary of the District by (a) an independent certified public accountant or firm of certified public accountants not in the regular employ of the District on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the District on a monthly salary basis and of recognized expertise and good reputation in the field of water engineering and licensed in Kentucky, reciting the opinion based upon necessary investigation that the net income and revenues of the System as defined in (i) above for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum annual debt service requirement (principal and interest) for any year ending January 1 with respect to the 1966 and 1978 Bonds and any parity bonds then outstanding and the proposed additional parity bonds. The net income and revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional parity bonds, and also to reflect any increase in such net income and revenues by reason of the extensions, additions and improvements to the

System the cost of which (in whole or in part) is to be paid through the issuance of such additional parity bonds; but such latter adjustments shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into prior to the issuance of such additional parity bonds. All such adjustments to reflect any revision of rates and charges or an increase in net income and revenues by reason of extensions, additions and improvements to the System as aforesaid shall be based upon written certification by (a) an independent professional engineer or firm of professional engineers not in the employ of the District on a monthly salary basis and of recognized expertise and good reputation in the field of water engineering and licensed in Kentucky or (b) an independent certified public accountant or firm of certified public accountants not in the employ of the District on a monthly salary basis.

"The District hereby further reserves the right and privilege of issuing additional parity bonds for the purpose of refunding the 1966 Bonds, 1978 Bonds and any additional parity bonds, or any portion thereof, as may be outstanding, provided that before any additional parity bonds are issued for such purpose, there shall have been procured and filed with the Secretary of the District either (a) the written consent of the holders of all 1966 and 1978 Bonds and any outstanding parity bonds (other than the bonds being refunded) to such issuance or (b) a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion based upon necessary investigation that after the issuance of such additional parity bonds, the net income and revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such additional parity bonds, after taking into account the revised maximum annual debt service resulting from the issuance of such additional parity bonds and from the elimination of the bonds being refunded thereby, are equal to not less than 120% of the maximum annual debt service requirement for any year ending January 1 with respect to the 1966 and 1978 Bonds and any additional parity bonds then outstanding and the proposed additional parity bonds and calculated in the manner specified above.

"The original purchaser or purchasers of a series of additional parity bonds may waive the benefit of and any claim to the Debt Service Reserve Fund, in which event such bonds shall not be secured by or payable from the Debt Service Reserve Fund; and the District may make it a condition to the original sale of any series of additional parity bonds that the purchaser or purchasers thereof, by offering to purchase or by purchasing the same, has agreed to such waiver.

"The interest payment dates for all such additional parity bonds shall be semiannually on January 1 and July 1 of each year, and the principal maturities thereof shall be on January 1 of the year in which any such principal is scheduled to become due.

"The additional parity bonds, the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the income and revenues of the System on a parity with the 1966 and 1978 Bonds, and shall not be deemed to include or prohibit the issuance of other obligations the security and source of payment of which is subordinate and subject to the priority of the payments into the Sinking Fund and the Debt Service Reserve Fund for account of the 1966 and 1978 Bonds and any parity bonds."

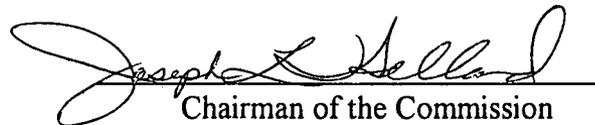
Section 9. Except as herein set forth, the terms and provisions of the 1966, 1978 and 1987 Resolutions are reaffirmed; provided that to the extent, if any, such terms and provisions shall be in conflict or inconsistent with the provisions of this Resolution, the provisions of this Resolution shall prevail.

Section 10. If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

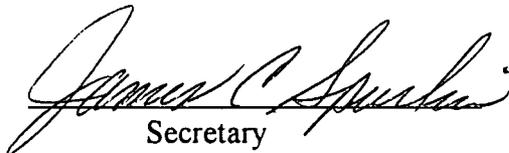
Section 11. This Resolution shall be in full force and effect from and after its adoption; provided that if the Refunding Bonds are not issued by December 31, 1995, this Resolution shall be automatically rescinded and repealed, without further action of the Commission of the District, and shall no longer be in effect.

ADOPTED BY THE COMMISSION OF MUHLENERG COUNTY WATER DISTRICT at a meeting held on October 16 , 1995, on the same occasion signed by the Chairman, attested under seal by the Secretary, and declared to be in full force and effect.

(SEAL)

  
Chairman of the Commission

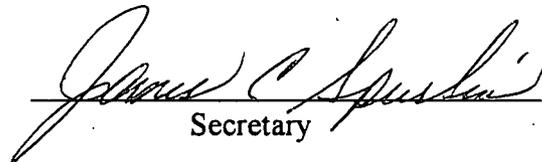
ATTEST:

  
Secretary

CERTIFICATION

The undersigned, Secretary of the Commission of Muhlenberg County Water District, Muhlenberg County, Kentucky (the "District"), hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of the District at a properly convened meeting of the Commission of the District held on October 16, 1995, signed by the Chairman thereof and attested under seal by me as Secretary, as shown by the official records of the District in my custody and under my control.

WITNESS my hand this 26 day of October, 1995.

  
Secretary

BOND AUTHORIZING RESOLUTION

A RESOLUTION OF THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT, MUHLENBERG COUNTY, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR EXTENSIONS AND ADDITIONS TO THE DISTRICT'S EXISTING MUNICIPAL WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF SAID DISTRICT'S "WATER SYSTEM REVENUE BONDS, SERIES OF 1978" TO PAY THE COSTS OF SAID PROJECT TO THE EXTENT NOT OTHERWISE PROVIDED TO BE PAID; PROVIDING FOR THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID MUNICIPAL WATER DISTRIBUTION SYSTEM; ESTABLISHING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM THE INCOME AND REVENUES OF THE MUNICIPAL WATER DISTRIBUTION SYSTEM AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED, AND OTHER PARITY BONDS OUTSTANDING; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID WATER SYSTEM REVENUE BONDS, SERIES OF 1978.

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BOND AUTHORIZING RESOLUTION

A RESOLUTION OF THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT, MUHLENBERG COUNTY, KENTUCKY, PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF MAJOR EXTENSIONS AND ADDITIONS TO THE DISTRICT'S EXISTING MUNICIPAL WATER DISTRIBUTION SYSTEM; AUTHORIZING THE ISSUANCE OF SAID DISTRICT'S "WATER SYSTEM REVENUE BONDS, SERIES OF 1978" TO PAY THE COSTS OF SAID PROJECT TO THE EXTENT NOT OTHERWISE PROVIDED TO BE PAID; PROVIDING FOR THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE INCOME AND REVENUES OF SAID MUNICIPAL WATER DISTRIBUTION SYSTEM; ESTABLISHING CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM THE INCOME AND REVENUES OF THE MUNICIPAL WATER DISTRIBUTION SYSTEM AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED, AND OTHER PARITY BONDS OUTSTANDING; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID WATER SYSTEM REVENUE BONDS, SERIES OF 1978.

WHEREAS, upon petition and hearing, an order and judgment (County Court Order Book 33, page 291) was duly entered by the County Court of Muhlenberg County, Kentucky, on July 24, 1962, determining necessity and creating and establishing the Muhlenberg County Water District (hereinafter sometimes called the "District") and defining the geographical area thereof, and the Court thereafter formally appointed Water Commissioners, the same thereupon constituting and being a public body corporate with all powers and authority as provided in KRS Chapter 74; and

WHEREAS, the aforesaid order was supplemented on July 21, 1966, by an order of the same Court (Order Book 35, at pages 244-246) by which Muhlenberg County Water District #2 was merged therein; and

WHEREAS, the District, on July 27, 1966, financed the acquisition and construction of a waterworks system by selling to the Farmers Home Administration ("FmHA") its bonds of an issue aggregating \$1,126,000, of which \$980,875 principal amount are still outstanding; and

WHEREAS, in Case No. 6762 before the Public Service Commission of Kentucky, the District has further obtained the requisite approval for the financing and construction of an office building; and

WHEREAS, in further proceedings before the Public Service Commission of Kentucky, Case No. 6948, said District has applied for approval of a new project to construct and operate additions and extensions to its municipal water distribution system, and plans and specifications have heretofore been prepared by Mayes, Sudderth and Etheredge, Inc., Consulting Engineers, Lexington, Kentucky, and approved by the District's Commission, the Public Service Commission of Kentucky, and the Kentucky State Department of Health; and it is the opinion of the Chairman and Members of the Commission of said District that it is feasible to undertake the

construction and installation of such additions and extensions to the water distribution system at this time; and

WHEREAS, it has been determined upon the basis of public bids duly solicited in the manner required by law that the aggregate of all costs and expenses in connection therewith, taking into account all local contributions, will be \$2,905,700, and to provide said funds the District has entered into a certain "Letter of Intent to Meet Conditions" with the United States Department of Agriculture, Farmers Home Administration, dated March 17, 1976, as amended December 20, 1977, wherein and whereby said Farmers Home Administration ("FmHA") has offered to make a loan to said District in a principal amount not to exceed \$2,048,000, and a grant not to exceed \$392,000, which, together with an applicant contribution of \$465,700, made up of connection fees in the principal amount of \$180,700, contributions from Muhlenberg Fiscal Court in the amount of \$200,000, from the Kentucky Department of Parks in the amount of \$75,000, and from Tooley Hill Development in the amount of \$10,000, will provide the required amount; and

WHEREAS, it is now appropriate for said District to provide for borrowing the said sum of \$2,048,000 through issuance and sale of its "Water System Revenue Bonds, Series of 1978," according to authority of Kentucky Revised Statutes Chapters 74 and 106, the same

to be payable as to both principal and interest solely (except as to capitalized interest) from the income and revenues to be derived from the operation of said municipal water distribution system and not constituting an indebtedness of said District within the meaning of debt-limiting provisions of the Constitution of Kentucky;

NOW, THEREFORE, THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT, MUHLENBERG COUNTY, KENTUCKY, DOES HEREBY RESOLVE, AS FOLLOWS:

SECTION 1

AUTHORIZATION OF THE PROJECT;  
DECLARATION OF NECESSITY

It is hereby determined and declared to be necessary in the interests of the general welfare of the citizens and inhabitants of the District that said Muhlenberg County Water District undertake at this time the construction and installation of major facilities, consisting of additions and extensions to its municipal water distribution system, for the purpose of furnishing water to additional areas and consumers in said District (hereinafter sometimes referred to as the "Project"), all substantially according to the plans and specifications prepared for the District by Mayes, Sudderth and Etheredge, Inc., Consulting Engineers, Lexington, Kentucky (hereinafter sometimes referred to as the "Engineers"). Immediate undertaking of such construction and installation is hereby authorized.

SECTION 2

PROJECT TO BE MUNICIPALLY  
OWNED AND OPERATED

The construction and installation of such major additional water facilities are undertaken by said District for public purposes and shall constitute the District's municipal water distribution system and appurtenant facilities (hereinafter, as expanded and enlarged by the Project, sometimes called the "System"), and so long as any of the Revenue Bonds, hereinafter authorized or permitted to be issued, shall remain outstanding and unpaid as to principal or interest, said System shall be municipally owned, controlled, operated and maintained by said District for the security and source of payment of the Bonds herein authorized to be issued, and all other parity Bonds outstanding heretofore or hereafter issued. Said System, and the Project, were undertaken and are to be constructed and acquired pursuant to the provisions of Kentucky Revised Statutes Chapter 106 now in full force and effect.

SECTION 3

BOND ISSUE AUTHORIZED; NUMBER OF BONDS; REDEMPTION  
PROVISIONS; WHERE BONDS PAYABLE; HOW EXECUTED

For the purpose of providing funds (not otherwise provided) to defray the costs of the said described Project, together with all necessary and proper appurtenances and expenses incident thereto,

and incident to the issuance of the Bonds hereinafter referred to, there are hereby authorized to be issued the said District's "Water System Revenue Bonds, Series of 1978," in the principal amount of Two Million and Forty-Eight Thousand Dollars (\$2,048,000), consisting of 2,048 negotiable coupon Revenue Bonds, registrable as to principal only, in the denomination of One Thousand Dollars (\$1,000) each, with reservation of right on the part of said District to issue additional bonds in the future, payable from the income and revenues of said System, subject to the conditions and restrictions hereinafter affirmed, adopted, and set forth. Such Bonds shall be offered at public sale as provided in Section 6 of this Resolution, and if United States of America, Department of Agriculture, Farmers Home Administration (FmHA) shall become the purchaser of all or any of the Bonds, such purchaser shall be privileged to elect that the same be issued and delivered according to the "Form of Coupon Bonds," as prescribed in Section 5 hereof, or according to the "Form of Fully Registered Bond" as prescribed in Section 7 hereof. Said "Water System Revenue Bonds, Series of 1978," in either or both of said forms, are sometimes hereinafter referred to as the "Bonds."

Said "Water System Revenue Bonds, Series of 1978" hereby authorized shall be numbered consecutively 1 to 2048, inclusive, if issued as Coupon Bonds, or R-1 and upwards if issued as Fully

Registered Bonds; shall be dated as of the date of delivery to the purchaser thereof; shall mature as to principal in various amounts on January 1 in each of the years 1981 to 2018, inclusive, as set forth in the schedule appearing below; shall bear interest from their date until payment of principal, such interest to the respective maturity dates to be represented by interest coupons attached to the Bonds maturing on January 1 and July 1 of each year on a semiannual basis after the initial coupon, such interest to be at such rate or rates (averaging not in excess of the rate set forth in Section 6 hereof), as may be established by a supplemental Resolution upon the basis of competitive sale of the Bonds as hereinafter provided; the numbers and principal maturities of coupon Bonds, and the installments of principal of Fully Registered Bonds, to be as set forth in the following schedule:

<u>BONDS NUMBERED</u> (Inclusive)	<u>PRINCIPAL AMOUNT</u>	<u>DATE OF MATURITY</u>
1 - 19	\$ 19,000	January 1, 1981
20 - 39	20,000	January 1, 1982
40 - 60	21,000	January 1, 1983
61 - 82	22,000	January 1, 1984
83 - 105	23,000	January 1, 1985
106 - 129	24,000	January 1, 1986
130 - 155	26,000	January 1, 1987
156 - 182	27,000	January 1, 1988
183 - 210	28,000	January 1, 1989
211 - 240	30,000	January 1, 1990
241 - 271	31,000	January 1, 1991
272 - 303	32,000	January 1, 1992

<u>BONDS NUMBERED</u> (Inclusive)	<u>PRINCIPAL AMOUNT</u>	<u>DATE OF MATURITY</u>
304 - 337	\$ 34,000	January 1, 1993
338 - 373	36,000	January 1, 1994
374 - 411	38,000	January 1, 1995
412 - 450	39,000	January 1, 1996
451 - 491	41,000	January 1, 1997
492 - 535	44,000	January 1, 1998
536 - 581	46,000	January 1, 1999
582 - 629	48,000	January 1, 2000
630 - 679	50,000	January 1, 2001
680 - 732	53,000	January 1, 2002
733 - 788	56,000	January 1, 2003
789 - 846	58,000	January 1, 2004
847 - 907	61,000	January 1, 2005
908 - 971	64,000	January 1, 2006
972 - 1039	68,000	January 1, 2007
1040 - 1110	71,000	January 1, 2008
1111 - 1185	75,000	January 1, 2009
1186 - 1263	78,000	January 1, 2010
1264 - 1345	82,000	January 1, 2011
1346 - 1431	86,000	January 1, 2012
1432 - 1522	91,000	January 1, 2013
1523 - 1617	95,000	January 1, 2014
1618 - 1717	100,000	January 1, 2015
1718 - 1822	105,000	January 1, 2016
1823 - 1932	110,000	January 1, 2017
1933 - 2048	116,000	January 1, 2018

provided, however, that said Bonds numbered 183 to 2048, inclusive, (all Bonds maturing on and after January 1, 1989), and corresponding installments of principal in the case of Bonds in Fully Registered Form, shall be subject to redemption at the option of said District prior to maturity, in whole, or from time to time in part in inverse numerical order, on any interest payment date on and after January 1, 1988, upon terms of par plus accrued interest without any redemption

premium, and in the event any of said Bonds issued in Coupon Form are called for redemption as aforesaid, notice thereof identifying the Bonds to be redeemed shall be given by publication at least once not less than thirty (30) days prior to the redemption date in a daily newspaper of general circulation throughout Kentucky, and in a financial newspaper or journal of general circulation among bond buyers published in New York, New York (and by ordinary mail to the holders of any registered Coupon Bonds then to be redeemed); provided, that so long as FmHA is the owner of any of said Bonds, they may be redeemed at any time at par plus accrued interest, and without notice or redemption premium.

Both principal and interest of Bonds issued in Coupon Form shall be payable in lawful money of the United States of America at the principal office of the First State Bank of Greenville, in the City of Greenville, Muhlenberg County, Kentucky, or, at the option of the holder, at the principal office of Chemical Bank, Borough of Manhattan, City and State of New York. Said Coupon Bonds shall be executed by a reproduced facsimile of the signature of the Chairman of the Commission of said District, sealed with a reproduced facsimile of its corporate seal and attested by the manual signature of the District Secretary, and the interest coupons attached to said Bonds shall be executed with the facsimile signatures of said Chairman and said Secretary.

If any District officer whose signature or a facsimile of whose signature appears on any Bond or coupon shall cease to be such officer prior to delivery, every such signature, or facsimile signature, shall nevertheless be valid and binding for all purposes, the same as if such officer had continued in office until the time of delivery of such Bond or coupon. All of said Bonds (whether issued in Coupon Form, or in Fully Registered Form without coupons), together with the interest thereon, and any Bonds which may hereafter be issued on a basis of parity therewith subject to the conditions and restrictions hereinafter set forth, shall be payable only out of the "Muhlenberg County Water District Waterworks Bond and Interest Sinking Fund," created by a resolution of the Commission of the District adopted on March 1, 1966, as hereinafter more specifically provided, and shall be a valid claim of the holder thereof only against said fund and the fixed portion or amount of the revenues of the System which the District has pledged to said Fund.

#### SECTION 4

##### BONDS MAY BE REGISTERED AS TO PRINCIPAL

Said Coupon Bonds and appurtenant interest coupons shall be fully negotiable, but upon presentation of any Coupon Bonds at the office of the First State Bank of Greenville, Greenville, Kentucky, hereby designated as the District's Bond Registrar in

that connection, said Coupon Bonds may be registered as to principal in the name of the owner on the books in said Registrar's office, such registration to be noted on the reverse side of the Bonds by the Registrar, and thereafter the principal of such registered Coupon Bonds shall be payable only to the registered holder, his legal representatives or assigns. Such registered Coupon Bonds shall be transferable to another registered holder or back to bearer only upon presentation to the Registrar with a legal assignment duly acknowledged or proved. Registration of any of such Coupon Bonds shall not affect the negotiability of the coupons thereto attached, but such coupons shall always be transferable by delivery merely.

SECTION 5

FORM OF COUPON BONDS

Said Coupon Bonds and appurtenant interest coupons shall be in substantially the following form, to-wit:

(FORM OF COUPON BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTY OF MUHLENBERG  
MUHLENBERG COUNTY WATER DISTRICT  
WATER SYSTEM REVENUE BOND, SERIES OF 1978

Number \_\_\_\_\_

\$1,000

KNOW ALL MEN BY THESE PRESENTS:

That the Muhlenberg County Water District, a public body corporate created and existing pursuant to Chapter 74 of the Kentucky Revised Statutes, situated in the County of Muhlenberg in the Commonwealth of Kentucky, for value received, hereby promises to pay to bearer, or, if this Bond be registered, to the registered holder hereof, as hereinafter provided, solely from the special fund hereinafter identified, the sum of One Thousand Dollars (\$1,000) on the first day of January, 19\_\_\_, and likewise from said special fund to pay interest on said sum from the date hereof until payment of principal at the rate of \_\_\_\_\_ per cent (\_\_\_\_\_) per annum, payable on the first days of January and July in each year, on a semiannual basis beginning with \_\_\_\_\_, except as the provisions hereinafter set forth with respect to redemption may be and become applicable hereto, such interest as may accrue on and prior to the maturity of this Bond to be paid only upon presentation and surrender of the annexed interest coupons as the same severally mature, both principal and interest being payable in lawful money of the United States of America at the principal office of the First State Bank of Greenville, in the City of Greenville, Kentucky, or, at the option of the holder, at the principal office of Chemical Bank, Borough of Manhattan, New York, New York.

This Bond is one of a duly authorized issue of Bonds, aggregating \$2,048,000, authorized by a Resolution duly adopted as provided by law, issued for the purpose of defraying in part the costs of constructing and installing major extensions and additions to the District's existing municipal water distribution system, together with necessary appurtenant facilities, and incidental expenses, and this Bond has been issued and said water facilities and appurtenances are to be constructed under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including, among others, Chapters 74 and 106 of the Kentucky Revised Statutes, all now in full force and effect.

A statutory mortgage lien which said District has recognized as being effective upon issuance and delivery of any of the Bonds of the issue of which this Bond is a part is created and granted by Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holders of said Bonds, and the same shall continue as a first and paramount lien upon the aforesaid water distribution system and appurtenant facilities, together with all future additions and improvements thereto and extensions thereof, and the revenues derived from the operation thereof, until payment in full of all Bonds authorized and permitted to be issued under the provisions of said Resolution, including parity Bonds, if any be issued subject to the conditions and restrictions prescribed in that connection in and by said Resolution.

The Bonds numbered 183 to 2048, inclusive (all Bonds maturing on and after January 1, 1989), of the series of which this Bond is one and as may be outstanding from time to time, are subject to redemption at the option of said District prior to maturity, in whole, or from time to time in part in inverse numerical order, on any interest payment date on or after January 1, 1988, upon terms of par plus accrued interest, without any redemption premium, and in the event any of said Bonds are called for redemption as aforesaid, notice thereof identifying the Bonds to be redeemed will be given by publication at least once not less than thirty (30) days prior to the redemption date in a daily newspaper of general circulation throughout Kentucky, and in a newspaper or journal of general circulation among bond buyers published in New York, New York (and by ordinary mail to the holders of any registered Bonds then to be redeemed); provided, that so long as the Farmers Home Administration of the United States Government holds any of said Bonds, they are callable at any time at par and accrued interest and without redemption premium.

All of said Bonds as to which said District reserves and exercises the right of redemption and as to which notice as aforesaid shall have been given and for the redemption of which, upon the terms aforesaid, funds are duly provided, will cease to bear interest

on the redemption date. Notice of such redemption may be waived with the written consent of the holder of the Bond so called for redemption.

This Bond and the issue of which it forms a part, together with bonds of the issue designated "Muhlenberg County Water District Water Works System Revenue Bonds," dated September 7, 1966, and together with such additional Bonds ranking on a parity therewith as may hereafter be issued and outstanding from time to time under the conditions and restrictions set forth in the Resolution authorizing the issuance of this Bond, are payable from and secured by an exclusive pledge of a fixed portion of the income and revenues to be derived from the operation of said municipal water distribution system, which fixed portion shall be sufficient to pay the principal of and interest on this Bond and the issue of which it forms a part, and outstanding parity Bonds, as and when the same become due and payable, and which shall be set aside into a special fund for that purpose identified as the "Waterworks Bond and Interest Sinking Fund."

This Bond and the issue of which it forms a part do not constitute an indebtedness of the said District within the meaning of any constitutional or statutory provisions or limitations, and said District is not and shall not be obligated to pay this Bond or the interest hereon except from the aforesaid special fund. Said

District, acting by and through its Commission, covenants that it will fix, and, if necessary, adjust from time to time, such rates for use of the services and facilities of said system, and that it will collect and account for income and revenues therefrom, sufficient to pay promptly the interest on and principal of this issue of Bonds, and all other Bonds ranking on a parity therewith as may be issued and outstanding from time to time in accordance with the conditions and restrictions prescribed in that connection, and also to pay the costs of operation and maintenance of said system.

This Bond is fully negotiable but may be registered as to principal only in the name of the holder on the books of said District, in the office of the First State Bank of Greenville, Greenville, Kentucky, duly designated as the District's Bond Registrar for that purpose, such registration being noted hereon by said Registrar, after which no transfer shall be valid unless such registered Bond be presented to said Registrar with a legal assignment duly acknowledged or proved, and such transfer is made on said books and similarly noted on the Bond, but it may be discharged from such registration by being similarly transferred and registered to bearer, after which it shall be transferable by delivery, but it may be again registered as before. The registration of this Bond as to principal shall not restrain the negotiability of the coupons by delivery merely.

This Bond is exempt from taxation in the Commonwealth of Kentucky.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond and the issue of Bonds of which it is one, have existed, have happened, and have been performed in due time, form and manner as required by law; that the amount of this Bond, together with all other obligations of said District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky; and that a sufficient portion of the income and revenues of said municipal water distribution system has been pledged to and will be set aside into said special fund by said District for the prompt payment of the principal of and interest on all Bonds which by their terms and by the provisions of said Resolution are payable therefrom, in addition to proper provisions for the costs of operation and maintenance thereof.

IN WITNESS WHEREOF, said Muhlenberg County Water District, in the Commonwealth of Kentucky, by its Commission, has caused this Bond to be executed by a reproduced facsimile of the signature of the Chairman of its Commission, and a reproduced facsimile of its corporate seal to be hereunto affixed; attested by the manual signature of the Secretary, and the coupons hereto attached to be executed



New York, New York, as provided in and being interest then due on its "Water System Revenue Bond, Series of 1978," Number \_\_\_\_\_.

MUHLENBERG COUNTY WATER DISTRICT

By \_\_\_\_\_ (Facsimile Signature)  
Chairman of the Commission

ATTEST:

\_\_\_\_\_  
(Facsimile Signature)  
Secretary

\*(This redemption legend to appear only on coupons maturing on and after July 1, 1988).

(FORM OF REGISTRATION TO BE PRINTED ON THE BACK OF EACH BOND)

Date of Registration	:	In Whose Name Registered	:	District's Bond Registrar Officer's Signature and Title
	:		:	
	:		:	
	:		:	
	:		:	
	:		:	

SECTION 6

PROVISIONS RELATING TO SALE OF BOND ISSUE

The Bonds authorized by this Resolution shall be publicly offered for sale as constituting 2048 negotiable, bearer, Coupon Bonds, registrable as to principal only, in the denomination of

\$1,000 each, in form as prescribed in Section 5 hereof, according to a "Notice of Sale of Bonds" conforming to the requirements of KRS Chapter 424 (and particularly KRS 424.140(3) and KRS 424.360), which shall be published one time, not less than seven (7) days nor more than twenty-one (21) days prior to the date therein specified for the opening and consideration of purchase bids, in each of the following:

(a) The Greenville Leader - Central City News, being a legal newspaper published in Muhlenberg County, Kentucky, and having the largest circulation within the District, (b) The Courier-Journal, Louisville, Kentucky, a legal newspaper having statewide circulation, and (c) The Daily Bond Buyer, New York, New York, a financial newspaper or journal of general circulation among bond buyers.

Said Notice shall state the name and amount of Bonds to be sold, the time of the sale and other details concerning the Bonds and the sale and shall inform prospective bidders that a copy of the Official Notice of Bond Sale, setting out the maturities, security of the Bonds, provisions as to redemption prior to maturity, and related information, may be obtained from the District. Such Official Notice shall contain the following bidding requirements:

A. Bidders are required to bid a cash price of not less than par value for the Bonds for which a bid is made.

B. Interest rates must be in multiples of 1/8 or 1/10 of one per cent, not exceeding 5% per annum, with no more than

one interest rate per maturity to be stipulated by any bidder. Each Bond shall bear interest at a single rate from date to maturity.

C. Bids will be considered only for the entire Bond issue. No proposal will be considered to the effect that interest on any Bond maturing on any interest payment date be represented by more than one coupon.

D. Bidders (except the FmHA) are required to deposit a good faith check by cashier's check or certified check in the minimum amount of 2% of the face amount of the Bonds for which a bid is made, which good faith deposit may be applied as partial payment for the Bonds, or as liquidated damage in the event that such bidder, if successful, fails to comply with the terms of his bid.

E. That preference in award will be given to the bid resulting in the lowest net interest cost to the District.

F. That the lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon the Bonds bid for, computed from the first day of the month following the date of sale of the Bonds (even though the Bonds will bear interest only from the date of delivery) to the final maturity specified in each respective bid.

G. That bidders shall be advised that the FmHA has entered into a Loan Agreement with the District pursuant to which said FHA proposes to purchase at par at a 5% interest rate all of the \$2,048,000 principal amount of Bonds for which no other bid complying with the terms of the sale is received at an equally (or more) favorable net interest cost.

H. That in the event any such other bid or bids are received, the bid of the FmHA as to such Bond issue so bid for will be cancelled and withdrawn.

I. That the District expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the Bonds at the office of the District within 45 days after notice is given of the award. That if said Bonds are not ready for delivery and payment within forty-five (45) days from the aforesaid date of sale, the successful bidder(s) shall be relieved of any liability to accept delivery of the Bonds, except that additional time may be required for delivery of any Bonds purchased by the FmHA.

J. That the District reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

K. That the District will furnish the Bonds, together with evidence of approval of the Bond issue by the Public Service

Commission of Kentucky, pursuant to the requirements of KRS Chapter 278.

L. That the Bonds will be tendered within said 45-day period and that the successful bidder will receive the approving legal opinion of Harper, Ferguson & Davis, Municipal Bond Attorneys, Louisville, Kentucky, as to the legality and tax-exemption of said Bonds, without additional cost to the successful bidder.

In the event that there is no bid, or that all bids are rejected, the District may re-advertise the sale pursuant to this Resolution.

#### SECTION 7

#### FmHA MAY ELECT TO RECEIVE FULLY REGISTERED BOND; FULLY REGISTERED BOND FORM

In the event that when the Bonds herein authorized and referred to are offered for public sale, United States of America, Department of Agriculture, FmHA, shall become the purchaser thereof, as provided in Section 6 hereof, and shall so request, the District shall, at the option of such purchaser, issue a single Bond (hereinafter referred to as a "Fully Registered Bond"), amounting in the aggregate to the principal amount of the Bonds so purchased, maturing as to principal in installments corresponding to the principal

maturities of the Coupon Bonds represented thereby. Such Fully Registered Bond shall be of type composition, on paper of sufficient weight and strength to prevent deterioration until the last day of maturity of any installment of principal as stated therein, and shall conform in size to standard practice. Such Fully Registered Bond shall, upon execution on behalf of the District (which execution shall be by manual signatures of the Chairman and Secretary of the Commission, and actual impression of the corporate seal), constitute a part of the Bond issue herein authorized and referred to, shall be non-negotiable, without interest coupons, registered as to principal and interest, payable as directed by the Payee, and be in substantially the form hereinafter set forth.

The District hereby covenants and agrees with the registered owner and holder of such Fully Registered Bond that it will, at the request of such holder, at the District's own expense and within ninety (90) days of such request, issue its negotiable, bearer, Coupon Bonds (registrable as to principal only) in form as set forth in Section 5 hereof, in the denomination of \$1,000, in aggregate principal amount, maturing as to principal and bearing interest, equivalent to the unpaid installments of principal then represented by such Fully Registered Bond which is surrendered in exchange therefor. Coupon Bonds shall be so issued and substituted only upon surrender

to the District of the Fully Registered Bond, which shall immediately be cancelled by the Secretary, acting as Bond Registrar for Fully Registered Bonds, and delivered to the District Treasurer.

Each such Fully Registered Bond shall be in substantially the following form:

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTY OF MUHLENBERG  
MUHLENBERG COUNTY WATER DISTRICT  
WATER SYSTEM REVENUE BOND, SERIES OF 1978

No. R-1

\$2,048,000

KNOW ALL MEN BY THESE PRESENTS:

That the Muhlenberg County Water District, a public body corporate created and existing pursuant to Chapter 74 of the Kentucky Revised Statutes, and situated in the County of Muhlenberg in the Commonwealth of Kentucky, for value received, hereby promises to pay to the registered holder hereof, as hereinafter provided, solely from the special fund hereinafter identified, the sum of Two Million Forty-Eight Thousand Dollars (\$2,048,000) on the first day of January in years and installments as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
-------------	------------------	-------------	------------------	-------------	------------------

(Here the printer will print the maturities of the Bonds purchased by FmHA and which the purchaser has elected to take in Fully Registered Form)

without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America; and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, in like coin or currency, at the rate of 5% per annum, on the first days of January and July in each year on a semiannual basis beginning with \_\_\_\_\_, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable to the registered owner hereof at the address shown on the registration book of the District or, so long as the United States of America, Farmers Home Administration, is the registered owner of this Bond, at such office or address as may be designated by said Farmers Home Administration from time to time.

This Bond is the Bond in Fully Registered Form, representing a total authorized issue of Bonds in the principal amount of \$2,048,000, issued by the District pursuant to the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 74 and 106 of the Kentucky Revised Statutes, and pursuant to a duly adopted Bond Resolution of said District, for the purpose of financing the

cost (not otherwise provided) of the construction and installation of major extensions and additions to the District's existing municipal water distribution system, together with appurtenant facilities, and incidental expenses.

This Bond and the issue of which it forms a part, together with bonds of the issue designated "Muhlenberg County Water District Water Works System Revenue Bonds," dated September 7, 1966, and together with such additional Bonds ranking on a parity therewith as may hereafter be issued and outstanding from time to time under the conditions and restrictions set forth in the Resolution authorizing the issuance of this Bond, are payable from and secured by an exclusive pledge of a fixed portion of the income and revenues to be derived from the operation of said municipal water distribution system, which fixed portion shall be sufficient to pay the principal of and interest on this Bond and the issue of which it forms a part, and outstanding parity Bonds, as and when the same shall become due and payable, and which shall be set aside as a special fund for that purpose and identified as the "Waterworks Bond and Interest Sinking Fund."

This Bond does not in any manner constitute an indebtedness of said District within the meaning of any constitutional or statutory provisions or limitations, and said District is not and

shall not be obligated to pay this Bond or the interest hereon except from the aforesaid special fund. Said District, acting by and through its Commission, covenants that it will fix, and, if necessary, adjust from time to time, the rates for the use of the services and facilities of said system, and that it will collect and account for the income and revenues therefrom sufficient to pay all costs and expenses of operating and maintaining said system and to pay promptly when due the principal of and interest on this Bond and outstanding parity Bonds as the same become due.

This Bond shall be registered as to principal and interest in the name of the holder hereof, after which it shall be transferable only upon presentation to the Secretary of the District, as the Bond Registrar, with a written transfer duly acknowledged by the registered holder or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the books of the District kept for that purpose.

As provided in said Bond Resolution, this Bond is exchangeable at the expense of the registered owner hereof at any time, upon ninety days' written notice, at the request of such registered owner and upon surrender of this Bond to the District at the office of the District in Muhlenberg County, Kentucky, for negotiable Coupon Bonds, payable to bearer, registrable as to principal only, in an amount or

amounts in a multiple of \$1,000, consistent with the maturities hereof, in an aggregate principal amount equal to and maturing in conformity with the unpaid principal amount of this Bond, and in the form of such Coupon Bonds as provided in said Bond Resolution, with semiannual coupons annexed representing the accrual of interest corresponding to the rate herein provided.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 1988, in the inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in multiples of One Thousand Dollars (\$1,000) as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any redemption premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least thirty days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond. Provided, however, that so long as any agency of the United States Government is the registered owner of this Bond, said Bond may be redeemed in whole or in part, at par or face value and without notice or redemption premium.

A statutory mortgage lien upon the aforesaid municipal water distribution system and appurtenant facilities, together with all future additions and improvements thereto, and extensions thereof, is created by Section 106.080 of the Kentucky Revised Statutes and by the aforesaid Bond Resolution, to and in favor of the registered owner of this Bond, and same shall continue as a first and paramount lien upon the aforesaid municipal water distribution system and appurtenant facilities, together with all future additions and improvements thereto and extensions thereof, and the revenues derived from the operation thereof, until payment in full of all Bonds authorized and permitted to be issued under the provisions of said Resolution, including parity Bonds, if any be issued or outstanding subject to the conditions and restrictions prescribed in that connection in and by said Resolution.

Upon default in the payment of any principal or interest payment on this Bond or upon failure by the District to comply with any other provisions of this Bond or with the provisions of the Bond Resolution, the registered owner may, at his option, institute any actions to enforce rights and remedies provided by law or by said Resolution.

This Bond is exempt from taxation in the Commonwealth of Kentucky.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the face amount of this Bond, being the total authorized amount of Bonds of the issue of which this Bond forms a part, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky; and that a sufficient portion of the income and revenues of said municipal water distribution system has been pledged to and will be set aside into said special fund by said District for the prompt payment of the principal of and interest on all Bonds which by their terms and by the provisions of said Resolution are payable therefrom, in addition to proper provision for the costs of operation and maintenance thereof.

IN WITNESS WHEREOF, said Muhlenberg County Water District, in the Commonwealth of Kentucky, by its Commission, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is \_\_\_\_\_.

MUHLENBERG COUNTY WATER DISTRICT

ATTEST:

By \_\_\_\_\_  
Chairman

\_\_\_\_\_  
Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the books of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered holder or his attorney, such transfer to be made on said books and endorsed thereon.

(FORM OF REGISTRATION)

		: Signature of the Water
		: District's Bond
Registration :	Registered Holder :	Registrar
	: United States of America :	
	: Farmers Home Administra- :	
	: tion, 1520 Market Street, :	
	: St. Louis, Missouri 63103 :	
	:	
	:	
	:	
	:	
	:	

SECTION 8

DISPOSITION OF BOND PROCEEDS; CONSTRUCTION FUND;  
CAPITALIZED INTEREST TO BOND FUND

The Treasurer of the District shall be the custodian of all funds belonging to and associated with the System, as expanded

and improved from time to time, and such funds shall be deposited in the First State Bank of Greenville, Greenville, Kentucky, or in any other bank in Muhlenberg County designated by Resolution of said District. All moneys in excess of the amount insured by the FDIC in the supervised bank accounts shall be secured by said depository banks in accordance with U. S. Treasury Department Circular No. 176. The Treasurer shall execute a fidelity bond in an amount and with a surety company approved by the Farmers Home Administration of the United States Department of Agriculture so long as it is the holder of any of the Bonds; and the FmHA and the District shall be named co-obligees in such surety bond, and the amount thereof shall not be reduced without the written consent of the FmHA. The proceeds of said \$2,048,000 of Bonds shall be applied as follows:

Upon the issuance and delivery of any Bonds authorized or permitted by this Resolution to be issued, the entire proceeds of the Bonds issued hereunder shall be deposited in the First State Bank of Greenville, Greenville, Kentucky (hereinafter sometimes referred to as the "Depository Bank"), which is a member of Federal Deposit Insurance Corporation, into an account designated "Muhlenberg County Water District Water System Construction Fund of 1978" (herein sometimes referred to as the "Construction Fund"). Said Bond proceeds shall constitute a part of said Construction Fund and shall -

be applied, to the extent necessary in paying the costs of carrying out said Project and constructing and installing said needed major water extensions and new facilities, including expenses incurred in the issuance of the Bonds. There shall also be deposited in said Construction Fund local contributions in the minimum amount of \$465,700 to supplement said Bond proceeds and assure completion of the Project.

From the Construction Fund, all sums representing accrued interest received from the Bond purchasers (if any) shall be transferred to the "Waterworks Bond and Interest Sinking Fund" (the "Sinking Fund"), created and existing in the First State Bank of Greenville under the terms of a resolution of the Commission adopted on March 1, 1966, by which the issuance of the District's \$1,126,000 "Water Works System Revenue Bonds" (the "1966 Bonds") was authorized, together with an additional \$105,000 from Bond proceeds, estimated to be equal to interest which will accrue on all outstanding Bonds (or on temporary loans made in anticipation of the sale and delivery of said Bonds) during construction and development of the Project, and the same shall be used and applied to the payment of interest next thereafter becoming due. Said deposit to the Sinking Fund shall be adjusted to exclude amounts paid as interest by the District on interim loans prior to delivery of the Bond issue.

Disbursements from said Construction Fund shall be made as provided by a Resolution heretofore adopted by the District incident to interim financing arrangements.

Pending disbursement, such proceeds, as aforesaid, shall be deposited in the First State Bank of Greenville, and to the extent that such deposit causes the aggregate deposits by said District in said bank to be in excess of the amount insured by Federal Deposit Insurance Corporation, same shall be secured by a surety bond or bonds furnished by a surety company or companies qualified to do business in Kentucky and approved by the Commission of said District, or by a valid pledge of direct obligations of the United States Government, or obligations as to which the payment of principal and interest are guaranteed by the United States Government, having a market value at least equivalent to such deposit.

Where the moneys on deposit in the Construction Fund exceed the estimated disbursements on account of the Project for the next 90 days, the District shall direct the depository bank to invest such excess funds in direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States Government, which shall mature not later than 18 months after the date of such investment and which shall be subject to redemption at any time by the holder thereof. The earnings from any such investments shall be deposited in the Construction Fund by the District.

In any event any unexpended balance shall remain in said Construction Fund after completion of the Project, and payment of all of the costs thereof, as certified by the Consulting Engineers, such unexpended balance, subject to the FmHA Loan Agreement, with FmHA approval, shall be transferred and deposited in the Sinking Fund heretofore created and shall be used at the earliest practicable date for the retirement of Bonds by purchase thereof (or principal prepayment) in inverse numerical and maturity order.

In the event that the amount hereinabove provided to be set aside from Bond proceeds for payment for interest during the construction and development of the Project should prove to be insufficient for such purpose, additional moneys may, upon approval by FmHA, be transferred from the said Construction Fund to the "Bond and Interest Sinking Fund," herein described, and so applied, inasmuch as interest during such period is a proper part of the cost of the project, to the extent authorized by FmHA.

Pending disbursements for the authorized purposes, the proceeds of all Bonds at any time issued pursuant to this Resolution shall be subject to a first and paramount lien and charge in favor of the holders of Bonds issued and outstanding hereunder and for their further security.

SECTION 9

OPERATION OF WATER DISTRIBUTION SYSTEM;  
FLOW OF FUNDS; ACCUMULATION OF REVENUES

From and after issuance and delivery of any Bonds herein authorized or permitted to be issued, and so long as any thereof remain outstanding and unpaid, the said Water Distribution System shall be operated, for the purposes of this Bond issue but subject to Section 12 of the resolution authorizing the 1966 Bonds (the "1966 Bond Resolution"), on a fiscal year basis beginning each January 1 and ending on the next December 31, and on that basis the income and revenues shall be collected, segregated, accounted for and distributed, as follows:

A separate and special fund or account of said District distinct and apart from all other funds and accounts was heretofore created by the 1966 Bond Resolution, designated and identified as the "Muhlenberg County Water District Water Revenue Fund" (hereinafter sometimes referred to as the "Revenue Fund"), which shall continue to be maintained with the First State Bank of Greenville and/or any other Muhlenberg County Bank (either of which, for convenience, is sometimes hereafter called the "Depository Bank"), and said District covenants and agrees that it will continue to deposit therein, promptly as received from time to time, all cash income and revenues of the water distribution system as hereinafter defined,

as said System may be expanded and improved from time to time. The moneys in the Revenue Fund from time to time shall continue to be used and disbursed and applied by said District only for the purposes and in the manner and order of priorities specified in the succeeding subsections of this Section 9, all as permitted by applicable statutes and by Section 6 of the 1966 Bond Resolution, and in accordance with pre-existing contractual commitments, as follows:

(A) A separate and special fund or account of the District was created in the First State Bank of Greenville, designated the "Muhlenberg County Water District Waterworks Bond and Interest Sinking Fund" (hereinbefore and hereinafter for convenience sometimes referred to as the "Sinking Fund" or "Bond Fund"), which shall continue to be maintained so long as any of the Bonds heretofore authorized and payable from said Fund, and herein authorized or permitted to be issued, are outstanding, and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on all Bonds as may have been issued and outstanding from time to time pursuant to the authority of the 1966 Bond Resolution and this Resolution, and including additional parity Bonds, if any are issued.

The District shall deposit from the Construction Fund into said Sinking Fund all sums received from any purchaser or purchasers of Bonds issued hereunder as representing accrued interest on such Bonds to date of delivery, together with an additional \$105,000 from Bond proceeds (less adjustments) as hereinabove provided, representing the amount estimated to be required for the payment of interest on the Bonds (or on temporary loans obtained in anticipation of the sale of the Bonds) during the period of construction and development of the system. Thereafter, there shall continue to be transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Bond Fund, sums not less than the total principal and interest requirements on all Bonds outstanding issued pursuant to authority of the 1966 Resolution and this Resolution. Thus there shall be set aside and paid into said Bond Fund on account of the Bonds herein authorized to be issued, sums not less than:

(i) beginning with and including the month in which interest shall last be payable from Bond proceeds, a sum equal to one-sixth ( $1/6$ ) of the next succeeding interest installment to become due on all Bonds then outstanding; and

(ii) beginning on January 1, 1980 (for the Series of 1978), a sum equal to one-twelfth ( $1/12$ ) of the principal of all Bonds maturing on the next succeeding January 1.

In the event additional parity Bonds are issued pursuant to the conditions and restrictions set forth in this Resolution, the monthly deposits to said Bond Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

Moneys from time to time in the Bond Fund may be held in cash, in which event the same shall, to the extent not insured by FDIC, be secured by a valid pledge of bonds, notes, or certificates of indebtedness of the United States Government having at all times an equal market value; or the same may, upon order of the Commission, be invested and reinvested in interest-bearing obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, maturing not later than the date on which such funds are needed to pay principal and interest on outstanding Bonds. Income from any such investments shall be accumulated in said Bond Fund and may be invested in the same manner;

(B) A separate and special fund or account of said District was heretofore created by the 1966 Resolution, designated and identified as the "Muhlenberg County Water District Depreciation Fund" (hereinafter for convenience referred to as the "Depreciation Fund").

After observing the priority of deposits set forth in (A) above, which are cumulative, there shall be set apart and paid into the Depreciation Fund each month, not less than \$1,020 (or more, if fixed by Resolution of the Commission of the District), from the remaining funds in the Revenue Fund, such monthly deposits to continue so long as any Bonds payable from the income and revenues of the System remain outstanding and unpaid, or until a maximum of \$122,400 is reached.

In addition to the above deposits from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn out or obsolescent properties of the System, if the same be sold upon order of the Commission. Any fees which may be levied and collected by the Commission of the District for the privilege of connecting to the System (excluding initial deposits received in aid of the Project, including certain fees initially reserved for operation and maintenance), shall be paid, as received, into the Depreciation Reserve Fund established by this Section 9(B). The term "Cash revenues" of the System, as used in Section 9 hereof, means all proceeds of water service rates and charges,

and does not include any of the cash items enumerated in this paragraph.

The Depreciation Fund shall be available and may be withdrawn and used by the District, upon appropriate certification to the Depository Bank, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals, or replacements, not included in the Annual Budget of Current Expenses, and the cost of constructing additions and improvements to the Water Distribution System which will either enhance its revenue-producing capacity or provide a high degree of service. Said Fund shall also be available for transfer to the Bond Fund in order to avoid default in connection with any Bonds payable from the Bond Fund.

At any time when the accumulations in the Depreciation Fund shall exceed anticipated and foreseeable needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in interest-bearing obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, maturing or subject to redemption at the option of the holder not later than three (3) years from the date of investment; but as and when funds may be required for authorized purposes a sufficient

portion thereof shall be converted into cash and so applied. All investments of money in the Depreciation Fund shall be carried to the credit of said Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

(C) A special and separate Fund of said District was heretofore created by the 1966 Resolution, distinct and apart from all other Funds and accounts of the District, designated and identified as the "Muhlenberg County Water District Operation and Maintenance Fund" (hereinafter sometimes referred to as the "Operation and Maintenance Fund"), and there shall be deposited in said fund those local contributions received prior to the issuance of the Bonds which are not required to be deposited in the Construction Fund. So long as any Bonds payable from the Bond Fund remain outstanding and unpaid, there shall be deposited monthly into the Operation and Maintenance Fund, from moneys remaining in the Revenue Fund, after making the transfers required by (A) and (B) of this Section 9 (which are cumulative) sufficient funds to meet the

Current Expenses of operating and maintaing the System, pursuant to the annual budget, for which provision is hereafter made, and to accrue an operation and maintenance reserve not in excess of anticipated requirements for a two month period pursuant to the annual budget.

(D) Subject to the provisions of subparagraphs (A), (B) and (C) of this Section 9, which are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty (60) days after the end of each fiscal year the balance of excess funds in the Revenue Fund on such date to the Bond Fund to be used in redeeming outstanding Bonds payable from the Bond Fund in inverse numerical or maturity order or purchasing such outstanding Bonds at a price not to exceed the price at which such Bonds may be redeemed on the next succeeding redemption date; provided, however, that notwithstanding the provisions hereof, the District reserves the right to redeem Bonds which are redeemable without redemption premium, prior to redeeming Bonds which are only redeemable upon the payment of redemption premium.

All payments into the above special funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Sunday or a legal

holiday, then such payment shall be made on the next succeeding business day.

All moneys held in any of the special funds described in this Section shall be kept apart from all other District funds and (except possibly the Revenue Fund) shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by pledge of direct obligations or by guaranteed bonds or securities of the United States Government having a market value equivalent to such deposit.

#### SECTION 10

##### COVENANTS TO BONDHOLDERS

Muhlenberg County Water District, Muhlenberg County, Kentucky, hereby irrevocably covenants and agrees with the holder or holders of any and all Bonds at any time issued and outstanding pursuant to authority of this Resolution, that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(A) It will faithfully and punctually perform all duties with reference to said Water Distribution System and the Project required by the Constitution and laws of the Commonwealth of Kentucky, and by the terms and provisions of this Resolution;

(B) It will at all times operate said Water Distribution System on a revenue-producing basis and will permit no free services to be rendered or afforded thereby;

(C) It will maintain the said Water Distribution System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside into the Depreciation Fund;

(D) The District covenants and agrees that, so long as any of the Bonds are outstanding, it will not sell or otherwise dispose of any of the System facilities or any part thereof, and, except as provided for in this Resolution (or in any Resolution for the issuance of parity bonds as permitted in Section 11), it will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge, or lien of these Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any of its System facilities, provided that:

(i) It is in compliance with all covenants and undertakings in connection with all of its Bonds then outstanding and payable from the revenues of the System;

(ii) it will, in the event of sale, apply the proceeds to either (1) redemption of outstanding Bonds or parity Bonds theretofore issued in accordance with the provisions governing prepayment of Bonds in advance of maturity, or (2) replacement of the facility to be disposed of by another facility the revenues of which shall be incorporated into the System as hereinbefore provided;

(iii) it certifies, prior to any abandonment of use, that the facility to be abandoned is no longer economically feasible of producing new revenues; and

(iv) notwithstanding all of the foregoing, no such sale, abandonment or transfer of System facilities shall be made so long as FmHA owns any of the Bonds herein authorized, without the written consent and approval of FmHA.

(E) It will establish, enforce and collect rates and charges for water services rendered and facilities afforded by said System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding Bonds and the accruing interest thereon, and the accumulation of reserves as herein provided; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and shall, if necessary, be adjusted from time to time in order to comply therewith; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and to provide 1.20 times coverage of average annual principal and interest on all Bonds payable from the Bond Fund, and shall, if necessary, be adjusted from time to time in order to comply herewith;

On or before the completion of construction and inception of initial operation of the Project, the District will adopt a budget of Current Expenses for the System for the remainder of the then current fiscal year of the System, and thereafter, on or before the first day of such fiscal year so long as any Bonds are outstanding, it will adopt an Annual Budget of Current Expenses for the ensuing fiscal year, and will file a copy of each such Budget, and of any amendments thereto, in the Office of the Secretary of the District, and, so long as the Government owns any of the Bonds, will file a copy thereof with FHA, and will furnish copies thereof to any other holder of any Bond upon request. The term "Current Expenses," as used therein, includes all reasonable and necessary costs of operating, repairing, maintaining and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements and extraordinary repairs and maintenance, and payments into the Bond Fund and the Dept Service Reserve. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Commission determining that such expenses are necessary in order

to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of gross revenues to be derived from operation of the System for each fiscal year, and to the extent that said gross revenues are insufficient to provide for all payments required to be made into the Bond Fund during such ensuing fiscal year, and to make the monthly payments specified by subsection (B) of Section 9 of this Resolution, and to pay Current Expenses, the District covenants and agrees that it will revise its rates and charges for services rendered by the Water Distribution System, so that the same will be adequate to meet all of such requirements;

(F) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System, without first obtaining the written determination of a Consulting Engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in this Resolution;

(G) It will at all times segregate the revenues of the System from all other revenues, moneys and funds of the District, and will promptly and regularly make application and distribution thereof into the special funds provided in this Resolution, in the manner and with due regard for the priorities herein attributed thereto.

(H) It will keep proper books of record and account, separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries of all transactions relating to said System, and the same shall be available and open to inspection by any bondholder, and any agent or representative of a bondholder;

(I) It will, within ninety (90) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state-licensed certified public accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financial condition and records of the System, including the status of the several funds hereinbefore created, the status of the insurance and fidelity bonding, the number and type of connec-

tions, and the current rates and charges, with comments of the auditor concerning whether the books and records are being kept in compliance with this Resolution and in accordance with recognized accounting practices, and will promptly cause a copy of the audit report to be filed in the Office of the Secretary where it will be available for public inspection, and will promptly mail a copy thereof to the original purchaser or purchasers of Bonds issued hereunder. If requested to do so, the District will furnish to any Bond holder a condensed form of the Balance Sheet, and a condensed form of the Operating Report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System and may be paid from revenues allocated for such purposes, as herein provided. Provided, so long as the Government holds any of the Bonds herein authorized, the District shall furnish operating and other financial statements in such form and substance and for such periods as may be requested by the Government;

(J) Any holder of said Bonds, or of any of the coupons, may either at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance by said District and its officers and agents of all duties imposed or required by law or this Resolution in connection with the operation of said System, including the making and collecting of sufficient rates and segregation of the revenues and applications thereof;

(K) If there be any default in the payment of the principal of or interest on any of said Bonds, then upon the filing of suit by any holder of said Bonds or any of the coupons, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of any Bonds or obligations outstanding against said System, and for the payment of Current Expenses, and to apply the revenues in conformity with this Resolution and the provisions of said statute laws of Kentucky aforesaid;

(L) The District will cause each municipal officer or other person (other than Depository Banks) having the custody of any moneys administered under the provisions of this Resolution to be bonded at all times in an amount at least equal to

the maximum amount of such moneys in his custody at any time; each such Bond to have surety given by a surety corporation and qualified to do business in Kentucky and approved by the Commission, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from moneys available in the "Operation and Maintenance Fund";

(M) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of or being appurtenant to the System, to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions, the premiums therefor to be paid from the "Operation and Maintenance Fund"; and will deposit all sums collected under the terms of such policies in the Depreciation Fund. Such insurance shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty per centum (80%) of the full insurable value of the damaged facility;

(N) The District will procure and at all times maintain Public Liability insurance relating to the operation of the System, with limits of not less than \$100,000 for one person and \$300,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than \$10,000 from claims for damage to property of others which may arise from the District's operation of the System;

(O) If the District owns or operates a vehicle in the operation of the System, the District will procure and at all times maintain Vehicular Public Liability insurance with limits of not less than \$100,000 for one person and \$300,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death, and not less than \$10,000 against claims for damage to property of others which may arise from the District's operation of vehicles. Provided, notwithstanding (M), (N) and (O) above, so long as FmHA holds any Bonds herein authorized, the District will procure and maintain insurance of such types and in such amounts as FmHA may specify with insurance carriers acceptable to FmHA.

SECTION 11

PARITY BONDS PERMITTED; TERMS

The Bonds authorized to be issued hereunder and from time to time outstanding shall not be entitled to priority one over the other in the application of the revenues herein pledged, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Bonds authorized to be issued under the provisions of the 1966 Resolution and this Resolution, regardless of the fact that they may actually be issued and delivered at different times. No other Bonds or other obligations shall be issued by the District and made payable from the revenues of the Water Distribution System unless the pledge of revenues for the same is expressly made subordinate and inferior to the lien and pledge herein created; provided, however, said District hereby reserves the right and privilege of issuing additional Bonds, from time to time, payable from the revenues of said System, ranking on a basis of equality and parity as to security and source of payment with the Bonds herein authorized and heretofore issued and outstanding parity Bonds, for the following purposes and subject to the following conditions and restrictions:

(a) The District covenants and agrees that in the event the cost of construction or completion of the Project, as hereinbefore described, shall exceed the estimated cost upon which the

dollar amount of Bonds herein authorized has been computed, it shall deposit into the Construction Fund the amount of such excess out of funds available to it for such purpose. The District may provide such excess (but only such excess) through the issuance of parity Bonds, provided that it has obtained (i) the consent of FmHA; and (ii) if any Bonds are owned by persons other than FmHA, the consent of the holders of two-thirds in principal amount of the outstanding Bonds so held.

(b) The District shall have the right to add new Water Distribution System facilities and related auxiliary facilities by the issuance of one or more additional series of Bonds to be secured by a parity lien on and ratably payable from the revenues and any other security pledged to these Bonds, provided in each instance that:

(i) the facility or facilities to be built from the proceeds of the additional parity Bonds is or are made a part of the System and its or their revenues are pledged as additional security for the additional parity Bonds and the outstanding Bonds;

(ii) the District is in compliance with all covenants and undertakings in connection with all of its Bonds then outstanding and payable from the revenues of the System or any part thereof;

(iii) there is procured and filed with the Secretary a statement by an independent certified public accountant, not in the regular employ of the District on a monthly salary basis,

reciting the opinion, based upon necessary investigation, that the annual net revenues (defined as gross revenues less essential operation and maintenance expenses) of the then existing System for the fiscal year preceding the year in which such parity Bonds are to be issued were equal to at least one hundred twenty per cent (120%) of the average annual debt service requirements for principal and interest on all outstanding Bonds payable from the revenues of the Bonds then outstanding and the additional parity Bonds then proposed to be issued. (The calculation of average annual debt service requirements of principal and interest on the additional Bonds to be issued shall, regardless of whether such Bonds are to be serial or term Bonds, be determined on the basis of the principal of and interest on such Bonds being payable in approximately equal annual installments). Provided, however, the foregoing conditions and limitations prescribed in this subparagraph (iii) may be waived or modified by the written consent of the holders of at least seventy-five per cent (75%) in principal amount of the then outstanding Bonds payable from the revenues of the System; and

(iv) the District has complied with the requirements of the 1966 Resolution.

(c) The District hereby covenants and agrees that in the event additional series of parity Bonds are issued, it shall:

(i) adjust the monthly deposits into the Bond Fund on the same basis as that prescribed in Section 9(A) hereof to reflect the annual debt service on the additional Bonds;

(ii) adjust and increase the monthly amount to be deposited into the Depreciation Fund to give recognition to the facilities and equipment to be constructed or acquired with the proceeds of such additional Bonds; and

(iii) make such additional Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year.

(d) If in any subsequently issued series of Bonds secured by a parity lien on the revenues of the System, it is provided that excess revenues in the Revenue Fund shall be used to redeem Bonds in advance of scheduled maturity, or if the District at its option undertakes to redeem outstanding Bonds in advance of scheduled maturity, it is agreed and understood (a) that calls of Bonds will be applied to each series of Bonds on an equal pro rata basis (reflecting the proportion of the original amount of each series of Bonds outstanding at the time of such call), and (b) that calls of Bonds for each series of Bonds will be in accordance with the call provisions of the respective Bond series. However, the District shall have the right to call, subject to the call provisions of the respective Bond series, any or all outstanding Bonds which may be called at par prior to calling any Bonds that are callable at a premium.

The additional parity Bonds (sometimes herein referred to as "permitted" to be issued), the issuance of which is restricted and conditioned by this Section, shall be understood to mean Bonds payable from the revenues of said Water Distribution System on a basis of equality and parity with the 1966 Bonds and the Bonds herein specifically authorized, and shall not be deemed to include other Bonds or obligations, the security and source of payment of which are subordinate and subject to the priority of the Bonds and parity Bonds herein

authorized to be issued. The District expressly reserves the right to issue its Bonds or other obligations payable from the revenues herein pledged, and not ranking on a basis of equality and parity with the Bonds and parity Bonds herein otherwise referred to, without any proof of previous earnings or net revenues, but only if such Bonds or other obligations are issued to provide for additions or extensions or improvements of the Water Distribution System, and only if the same are issued in express recognition of the priorities, liens and rights created and existing for the security, source of payment, and protection of the said Bonds and parity Bonds herein authorized and permitted to be issued. Provided, however, that nothing in this Section is intended or shall be construed as a restriction upon the ordinary refunding of the initially authorized Bonds, and/or of any Bonds which may have been issued and are outstanding under any of the provisions of this Resolution, if such refunding does not operate to increase, in any year until the final maturity of the refunding Bonds, the aggregate of the principal and interest requirements of the Bonds to remain outstanding and the Bonds proposed to be refunded.

#### SECTION 12

#### PROVISIONS OF RESOLUTION CONSTITUTE CONTRACT

The provisions of this Resolution shall constitute a contract

between Muhlenberg County Water District and the holders of the Bonds herein authorized and permitted to be issued, and after the issuance of any of the Bonds, no change, variation, or alteration of any kind of the provisions of this Resolution shall be made in any manner except as herein provided until such time as all of the said Bonds issued hereunder, and the interest thereon, have been paid in full.

SECTION 13

STATUTORY MORTGAGE LIEN ACKNOWLEDGED

A statutory mortgage lien upon said water distribution system, together with all appurtenances and additions thereto and extensions thereof, is granted and created by Section 106.080 of the Kentucky Revised Statutes for the benefit and protection of the holders of the Bonds issued and permitted to be issued under authority of this Resolution, and of the interest coupons thereto annexed; and said statutory mortgage lien is hereby recognized and shall be effective upon delivery of any of said Bonds, and shall continue in full force and effect so long as there shall remain unpaid any part of the principal of or interest on said Bonds.

SECTION 14

TAX COVENANT

(A) In this Section, unless a different meaning clearly appears from the context:

(i) "Code" means the Internal Revenue Code of 1954 of the United States of America, Title 26 of the United States Code, as amended to the date of adoption of this Resolution or as hereafter amended, including valid Regulations of the Department of the Treasury thereunder;

(ii) Reference to a provision of the Code by number or letter includes reference to any law hereafter enacted as amendment to or substitute for such provision;

(iii) Words which are used herein and in Section 103 of the Code shall have the meaning given to such words in or pursuant to said Section.

(B) The District shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the District on the Bonds shall, for the purposes of Federal income taxation, be exempt from income taxation under any valid provision of law.

(C) The District shall not permit at any time or times any of the proceeds of the Bonds or other funds of the District to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any such Bond to be an "arbitrage bond" as defined in subsection (c)(2) of Section 103 of the Code as then in effect and to be subject to treatment under subsection (c)(1) of said Section as an obligation not described in subsection (a)(1) of said Section, unless, under any valid provision of law hereafter enacted, the interest paid by the District on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the provisions of subsection (c) of Section 103 of the Code.

(D) In order to assure compliance with this Section, thereby better securing and protecting the Bonds and the District, the District from the date of adoption of this Resolution covenants that it shall not purchase any obligation or invest or direct the Treasurer or Depository Bank to, and the Treasurer and Depository Bank shall not, invest the proceeds of said Bonds, or moneys in the aforesaid Funds, in any obligations that produce a yield in excess of such applicable maximum yield as may be permitted by the Code.

(E) The District further covenants that prior to the issuance of the Bonds and as a condition precedent to such issuance the District shall certify by issuance of a certificate, supplemental to this Resolution, of a District officer having responsibility for the receipt, disbursement, use, and investment of the proceeds of the Bonds and the water revenues of the District, that on the basis of the facts, estimates, and circumstances in existence on the date of issue of the Bonds it is not expected that the proceeds of said issue of Bonds will be used in a manner that would cause such obligations to be arbitrage bonds, such certificate to be made in accordance with the provisions of the applicable Internal Revenue Service Regulations adopted by the Department of the Treasury, Internal Revenue Service, pursuant to Section 103(c) of the Code, then in effect.

SECTION 15

INTERIM FINANCING

It is the intention of the Commission of the District to borrow money for an interim period in anticipation of the issuance of the Bonds herein authorized, and it is acknowledged that the Commission has heretofore adopted Resolutions setting out procedures for the borrowing from banks of money to be used in the construction of the Project prior to the time the proceeds of the Bond issue became available to the District. It is further acknowledged that the District will issue its notes for the money so borrowed in accordance with procedures established by Resolution of the Commission, such notes to be payable and to be paid from the proceeds of the sale of the Bonds. It is hereby further provided that in the event insufficient interim financing is available through banks, the officers of the District are further authorized to obtain advances from FmHA, if available, and to issue Bond anticipation notes or similar temporary debt instruments in return for said advancements. Said notes or instruments shall be payable from the proceeds of the Bonds, when issued, and from the revenues of the Project to the extent any such revenues may be available prior to the issuance of the Bonds; provided, however, that any agreements with FmHA for such advancements shall be made in strict accordance with the terms of regula-

tions of FmHA in such cases made and provided. The Commission may, by further Resolution, implement the terms of this Section.

SECTION 16

SEVERABILITY CLAUSE

If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

SECTION 17

REPEAL OF INCONSISTENT PROVISIONS

All resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

SECTION 18

WHEN RESOLUTION EFFECTIVE

This Resolution shall be in full force and effect from and after its adoption, approval, and attestation, as provided by law.

ADOPTED BY THE COMMISSION OF MUHLENBERG COUNTY WATER DISTRICT,  
MUHLENBERG COUNTY, KENTUCKY, at a meeting held on the 22<sup>nd</sup> day of

February, 1978, on the same occasion signed in open session by the Chairman, attested under seal by the Secretary, and declared to be in full force and effect.

(SEAL)

Roy Key  
Roy Key  
Chairman of the Commission

ATTEST:

Jewell Earle  
Jewell Earle, Secretary

CERTIFICATION

The undersigned, Secretary of Muhlenberg County Water District, Muhlenberg County, Kentucky, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of said District, signed by the Chairman thereof, and attested under seal by me as Secretary upon the occasion of a properly convened meeting of the Commission of said District held on the 2nd day of February, 1978, as shown by the official records of said District in my custody and under my control.

WITNESS my hand and the seal of said District, this 2nd day of February, 1978.

(SEAL)

Jewell Earle  
Jewell Earle, Secretary

1966

BOND RESOLUTION

A RESOLUTION authorizing the construction by Muhlenberg County Water District of Muhlenberg County, Kentucky, of a water supply and distribution system, in and for said District; providing for the issuance of Water-works System Revenue Bonds of said District, for the purpose of financing the cost, not otherwise provided, of constructing said system; setting forth the terms and conditions upon which said bonds are to be and may be issued, and providing for the payment and security of said bonds thereon; and providing for the rights of the holders of said bonds in enforcement thereof and providing for the insurance of said bonds by the federal government.

WHEREAS, pursuant to Chapter 74 of Kentucky Revised Statutes, Muhlenberg County Water District has been created and organized as a public body corporate in Muhlenberg County, Kentucky, with the power and authority to acquire, construct, maintain and operate a water supply and distribution system for the purpose of furnishing water and water services for domestic, commercial and fire protection purposes and in that connection to issue its interest-bearing revenue bonds and pledge to the payment of said bonds the income and revenues of said system; and

WHEREAS, the Commissioners of said District have determined and do hereby determine the necessity, advantage and practicability of constructing said water supply and distribution system and to finance the cost thereof, not otherwise provided, by the issuance of revenue bonds secured by the income and revenues to be derived from the operation of said system, all as permitted by Chapters 74 and 106 of the Kentucky Revised Statutes;

WHEREAS, it is the desire and intent that provision be made in and by this resolution for the issuance of such bonds of said District for the purpose of financing the cost, not otherwise provided, of said water supply and distribution system, and to provide for the payment of said bonds and interest thereon and to set forth the conditions and restrictions upon which such bonds are to be and may be issued and outstanding;

NOW THEREFORE, Be it and it is hereby resolved by the Commission of Muhlenberg County Water District of Muhlenberg County, Kentucky hereinafter sometimes referred to as the District, as follows:

SECTION 1: That it is hereby found to be necessary that the Water District construct a water supply and distribution system in and for said District and which water supply is more generally described in the plans, specifications and report prepared by Campbell Wallace, consulting Engineers, now on file with the Secretary, and which water supply and distribution is hereinafter sometimes referred to as "Project."

SECTION 2: That for the purpose of financing the cost, not otherwise provided, of constructing said Project under the provisions of Chapter 74 and 106 of the Kentucky Revised Statutes, there are hereby authorized to be issued \_\_\_\_\_ revenue bonds of the water district in the aggregate principal amount of \$ \_\_\_\_\_, each of which shall be designated as "Water-works System Revenue Bond", numbered consecutively from 1-\_\_\_\_\_ inclusive, of the denomination of \$1,000 each; all of said bonds shall be dated the date of delivery to the purchaser and bear interest from such date at a rate not exceeding five percent (5%) per annum as may be fixed by supplemental resolution as result of advertised sale and competitive bidding for such bonds, as hereinafter provided; all interest to be payable semi-annually on January 1 and July 1 of each year. Said bonds shall be scheduled to become due and payable in numerical order on January 1 of the respective years as follows:

<u>Number</u>	<u>Year</u>	<u>Number</u>
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Provided, however, that all said bonds shall be subject to redemption by said District prior to maturity in whole or in part in inverse numerical order on any interest payment date at par plus accrued interest, by written notice at least 30 days prior to redemption date to the registered holders at their

addresses as shown in the books of the bond registrar; provided however, no bonds shall be called during the first five years from the date of issuance. (KY. - PW 235); that both principal and interest shall be payable in lawful money of the United States of America at Croesville, Kentucky, or at the principal office of the District in Muhlenberg County, Kentucky; provided, however, that if and for so long as payment of the bonds is insured by the United States of America acting through the Farmers Home Administration for the benefit of the holder, such interest shall be payable without presentation or demand and said principal shall be payable upon presentation and occurrence of the bond through the Government as collection agent for the holder at the Finance Office of the Farmers Home Administration, United States Department of Agriculture in St. Louis, Missouri, or at such other place as may be designated by the government by registered or certified mail addressed to the District and mailed at least forty days prior to an interest due date. Said bonds shall be secured by a statutory mortgage lien on said project as provided by Section 106.080 of the Kentucky Revised Statutes.

SECTION 3: Each bond will be fully insured as to principal and interest by the United States of America (hereinafter sometimes called "Government") pursuant to the Consolidated Farmers Home Administration Act of 1961, as amended; but only if notice of such insurance is set out on the back of said bond. In order to secure and maintain for the benefit of the holders of the bonds insurance by the Government of the payment of the principal and interest thereof the District covenants that:

(a) The Government shall be entitled to an insurance charge in accordance with the provisions of the Consolidated Farmers Home Administration Act of 1961, as amended, and the applicable regulations of the Farmers Home Administration; provided the total interest rate (including Government insurance charge) payable by the District and to be fixed by the terms of sale made

under Section 17 hereof shall remain the same.

(b) It will cause to be printed on all bonds insured by the Government such form of notice of insurance indorsement as shall be specified by the Government and it will comply with all terms and conditions of such insurance indorsement.

(c) The District shall furnish to the Government the names and addresses of the original purchasers of the bonds at the time of sale and shall promptly notify the Government each time such bonds are transferred from one registered holder to another indicating the bonds so transferred and giving the names of the transferees and transferors. Such information will be sent to the Director, National Finance Office, Farmers Home Administration in St. Louis, Missouri, or such other place as the Government may designate.

(d) In the event the Government shall make any advances required to meet payments on the bonds insured by it or the payment of insurance premiums or other advances which may be required to protect the Government's security interest, the District will pay interest on all such advances or expenditures in connection therewith made by the Government at the rate specified in the bonds. All such advances, expenditures and interest thereon shall be deemed payable on demand after any such expenditure by the Government. Any such amounts due the Government by the District shall take priority over all other payments due.

(e) It will execute such other agreements and instruments as the Government may from time to time prescribe to enable the Government to discharge its responsibilities as insurer and collection agent for all bonds insured.

Section 4: That the form and tenor of said bonds shall be substantially the following form, to-wit:

(Form of Bond)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTY OF MUHLENBERG  
MUHLENBERG COUNTY WATER DISTRICT  
WATER WORKS SYSTEM  
REVENUE BOND

Number \_\_\_\_\_

\$ \_\_\_\_\_

KNOW ALL MEN BY THESE PRESENTS that Muhlenberg County Water District, acting by and through its Commission, a public body corporate in Muhlenberg County, Kentucky, for value received, hereby promises to pay to the registered holder hereof, out of the special fund as hereinafter provided, the sum of \$ \_\_\_\_\_ on the first day of January, 19\_\_\_\_, and to pay the registered holder hereof, interest on said sum from the date hereof at the rate of \_\_\_\_\_ per cent per annum semiannually on the first days of January and July in each year until said sum is paid, except as the provisions hereinafter set forth with respect to prior redemption may be and become applicable hereto, both principal and interest being payable in any coin or currency, which on the respective dates of payment thereof is legal tender for debts due the United States of America at the principal office of Muhlenberg County Water District in Muhlenberg County, Kentucky, upon presentation as to interest, and presentation and surrender as to principals the interest and principal respectively mature; provided that for so long as payment of this bond is insured by the United States of America, acting through the Farmers Home Administration (herein called the "Government") for the benefit of the holder, such interest shall be payable without presentation or demand and such principal shall be payable upon presentation and surrender hereof through the Government as collection agent for the holder, at the Finance Office of the Farmers Home Administration, United States Department of Agriculture, in St. Louis, Missouri, or at such other place as may be designated by the Government by registered or certified mail addressed to the District and mailed at least forty days prior to an interest due date.

This bond is one of a duly authorized issue of bonds numbered consecutively from 1-\_\_\_\_, inclusive, aggregating \$ \_\_\_\_\_ principal amount, and has been issued by \_\_\_\_\_ Water District pursuant to a resolution duly adopted by the Commission of said District for the purpose of financing the cost, not otherwise provided, of constructing a water supply and distribution system in and for said District, and this bond has been issued under and in full compliance with the constitution and statutes of the Commonwealth of Kentucky including Chapters 74 and 106 of Kentucky Revised Statutes.

If and for so long as payment of principal and interest of this bond is insured by the Government, each successive holder of this bond shall be conclusively presumed to have appointed and accepted the Government as his collection agent to receive and receipt in the Government's name for payments of interest on, and principal of, this bond. As between the holder and the District, for the purposes of the provisions of this bond and the authorizing ordinance, such insurance by the Government shall be conclusively presumed to be and remain in effect so long as a notice of insurance indorsement, executed by the Government appears on the back of this

bond, and until a designated effective date of cancellation of such insurance specified in a cancellation indorsement executed by the Government on the back of the bond, notice of which cancellation is acknowledged by the District on the back of this bond.

All of the bonds of this issue as to which said District reserved and exercises the right of redemption and as to which notice as aforesaid shall have been given and for the retirement of which, upon terms aforesaid, funds are duly provided, will cease to bear interest on the redemption date.

This bond, and series of which it is one, with interest thereon, and annual insurance charges, is payable from and is secured by a pledge of the income and revenues to be derived from the operation of said water supply and distribution system, a sufficient portion of the gross income and revenues has been ordered set aside as a special fund and pledged for that purpose and identified as the "Waterworks Bond and Interest Sink'ng Fund". This bond and the issue of which it forms a part do not in any manner constitute an indebtedness of said District within the meaning of the Constitution of Kentucky, and said District shall not be obligated to pay this bond or the interest thereon except from said special fund. Said District acting by and through its Commission covenants that it will fix and revise such rates and charges for the service and facilities of the water supply and distribution system and collect and account for income and revenues therefrom sufficient to promptly pay the principal of and interest and annual insurance charges on this bond and the issue of which it is one as the same will become due, and also to pay when due all costs and expenses of operating and maintaining said water supply and distribution system.

This bond shall be registered as to principal and interest in the name of the holder on the books of said District in the office of the Secretary of the Commission of said District, such registration being noted hereon by the Secretary as bond registrar, after which it shall be transferable only upon presentation to such registrar of a written transfer of title the registered holder duly acknowledged and approved, and such registrar shall thereupon register this bond in the name of the transferee in his books and indorse a certificate of such registration.

Any of said bonds outstanding may be from time to time subject to redemption by said District, as its option, prior to maturity, serially and in inverse numerical order, or any interest due date at 100 percent of face amount, and with 100 percent of accrued interest, provided however, no bonds shall be called the first five years from the date of issuance. Thirty days redemption notice shall be given the registered holder by certified mail. However, purchase by the Government pursuant to its right as established by provisions of its insurance indorsement and/or contract shall be at face amount plus accrued interest.

Upon default in the payment of principal or interest on this bond or any other bond of the series of which it forms a part, or of any other series issued by the District or the payment of any annual insurance charge on this bond, or any other bond of the series, of which it forms a part, or in repayment of advances made by the Government as insurer and interest thereon or upon failure by said district to comply with any other provision of this bond or with the provisions of this bond resolution, the Government so long as it is the insurer or holder, may, at its option, declare the entire

principal amount of this bond and all other bonds of the series of which it forms a part immediately due and payable.

A statutory mortgage lien upon said water supply and distribution system of the District is created by Section 106.080 of the Kentucky Revised Statutes, to and in favor of the holder or holders of the issue of bonds of which this bond is one, and same is hereby recognized as valid and binding and shall remain in effect until the payment in full of the principal of and interest on all of said bonds.

This bond is exempt from taxation in the Commonwealth of Kentucky.

It is hereby certified, recited and declared that all acts, conditions, and things required to exist, happen and be performed precedent to and in the issuance of this bond and the issue of bonds of which it is one, have existed, have happened and have been performed in due time, form and manner as required by law, that the amount of this bond, together with all other obligations of said District, does not exceed any limit prescribed by the Constitution or statutes of the Commonwealth of Kentucky, and that sufficient portion of the gross income and revenues of said water supply and distribution system has been pledged to and will be set aside into said special fund for the prompt payment of the principal of and interest of this bond and annual insurance charges and the issue of which it is one.

IN WITNESS WHEREOF, said Muhlenberg County Water District by its Commission as the governing authority thereof, has caused this bond to be signed by its Chairman, its corporate seal to be hereunto affixed and attested by its Secretary.

This bond to be dated the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
Chairman

ATTEST:

\_\_\_\_\_  
Secretary

#### PROVISIONS FOR REGISTRATION

This bond may be registered on the books of the District kept for the purpose by the Secretary of the Commission of said District upon presentation hereof to said Secretary which shall make notation of such registration blank, and this bond may thereafter be transferred only upon an assignment duly executed by the registered owner or his attorney, such transfer to be made on said books and indorsed hereon. The principal of and interest on this bond shall be payable only to or upon the order of the registered holder or his legal representative.

REGISTRATION

Date of Registration	Name of Registered Holder	Signature of Authorized Officer
_____	_____	_____
_____	_____	_____

NOTICE OF INSURANCE  
BY THE UNITED STATES OF AMERICA

Payment of interest on and principal of this bond is insured by the United States of America, acting through Farmers Home Administration, U. S. Department of Agriculture, as evidenced by and in accordance with the terms of a contract of insurance executed by the United States on even date herewith. Executed by the United States of America through its undersigned duly authorized officer, this the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_.

(Signature) \_\_\_\_\_

(Title) \_\_\_\_\_  
FARMERS HOME ADMINISTRATION

Section 5: That the bonds be executed as provided herein and sold and delivered to the purchaser as determined by the commission; that the proceeds of the bonds shall be deposited in the "Construction Account" which shall be established as a supervised bank account and such proceeds shall be withdrawn only on checks signed by the treasurer of said district and countersigned by the county supervisor of the Farmers Home Administration. Proceeds shall be withdrawn on the orders of the commission of the district only for the purpose or purposes for which said bonds were issued. When the construction of the system has been completed or all construction costs have been paid in full, any balance remaining in the construction account shall be deposited in the "Water Works Bond And Interest Sinking Fund; and said "Construction Account" shall be closed.

Section 6: That as soon as said Project becomes revenue producing all gross income and revenues shall be deposited to the credit of a separate and special account designated as the "Water Revenue Fund". Such Revenue Fund shall be maintained, so long as any of the Bonds are outstanding, in a Kentucky Bank which is a member of the Federal Deposit Insurance Corporation. All monies in excess of \$10,000 deposited in any one bank shall be secured

by such respective depositories either by the earmarking and pledging of direct obligations of the United States of America, having a market value equal to not less than the amount deposited, or by approved security bonds equal to the respective amounts deposited therein. The monies so deposited shall be expended and used only in the manner and order as follows:

A. There shall be established and maintained with the Depository, so long as any of the Bonds are outstanding, a fund hereby created and designated as the "Waterworks Bond and Interest Sinking Fund" and as soon as the Project becomes revenue producing there shall be transferred on or before the 20th day of each month from the Revenue Fund and deposited to the credit of said Sinking Fund the following amount:

(a) Beginning on said date, a sum equal to 1/6 (or such larger amount as is necessary) of the next succeeding interest installment to become due on the bonds then outstanding, and

(b) Beginning on said date, a sum equal to 1/12 (or such larger amount as is necessary) of the principal of any Bonds maturing on the next succeeding January 1.'

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited in the Sinking Fund out of the first available gross revenues in the ensuing month or months, which amount shall be in addition to the monthly deposit required above during such succeeding month or months.

B. There shall be established and maintained with said Depository, so long as any of the Bonds are outstanding, a separate account hereby created and designated as the "Depreciation Fund". As soon as the transfers from the Revenue Fund as described in sub-paragraph A hereof have been made and beginning one year from the time the system becomes revenue producing, there shall be transferred monthly out of any remaining and available income and

revenue in said Revenue Fund the sum of \$45.00 or more per month to be fixed by resolution from time to time for the purpose of building up and maintaining in said Depreciation Fund a balance of at least \$6,000.00. In addition to such monthly transfers from the Revenue Fund, there shall be deposited to said Depreciation Fund all proceeds collected from potential customers to aid in the financing of the cost of extensions and improvements to said Project, and also proceeds from any property damage insurance and any such proceeds so deposited shall be used for the purposes intended. Monies in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification by the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements not included in the Annual Budget of Current Expenses, and of paying the cost of constructing extensions and improvements to the Project which will either enhance its revenue capacity or provide a higher degree of service.

C. There is hereby created a special fund to be designated as the "Operation and Maintenance Fund" and so long as any of the Bonds are outstanding there shall be transferred monthly and deposited in said Operation and Maintenance Fund sums sufficient to meet the current expenses of operating and maintaining the Project. The balance of said fund shall not be in excess of the amount required to cover anticipated expenditures for a two month period pursuant to the Annual Budget.

D. Subject to the provisions for the disposition of the income and revenues of the Project in sub-paragraphs A, B, and C. hereof, which are cumulative, and after paying or providing for the payment of debt service on any subordinate obligation there shall be transferred within sixty days after the end of each fiscal year the balance of excess funds in the Revenue Fund on such date to the Sinking Fund for the prompt use in redeeming outstanding Bonds in inverse numerical order.

SECTION 7: The rates and charges for all services and facilities rendered by the Project shall be reasonable and just, taking into account and consideration the cost and value of said Project and the cost of maintaining, repairing and operating the same and the amounts necessary for the retirement of all bonds and the accruing interest on all bonds, and there shall be charged such rates and charges as shall be adequate to meet the requirements of this and the preceding section thereof.

SECTION 8: The District shall install and maintain a proper system of accounts relating to the operation of the Project and its financial affairs and that the holders of any of said Bonds or their authorized representatives shall have the right at all reasonable times to inspect the facilities and all records, accounts and data relating thereto. An annual audit on a fiscal year basis will be made of the books and accounts pertinent to said Project by competent auditor. No later than 60 days after the close of each fiscal year copies of such audit reports certified by such accountant shall be promptly mailed to the Farmers Home Administration without request and to any Bond holder that may have requested same in writing.

SECTION 9: The District and its Commission hereby covenant and agree with the holder or holders of the Bonds that it will faithfully and punctually perform all duties with reference to the Project required by the Constitution and laws of the state of Kentucky, including the making and collecting of reasonable and sufficient rates and charges for services and facilities rendered by said Project, and will segregate the revenue and income therefrom and make application thereof consistent with and as provided by this resolution; and that unless the written consent of holders of the majority of the outstanding bond has been obtained, they agree not to sell, lease, mortgage, or in any manner dispose of any integral part of said Project, including any and all appurtenances thereto and extensions and additions that may be made thereto except the statutory mortgage as provided

in Section 10 hereof, until all of said bonds shall have been paid in full, both principal and interest; and further covenant and agree to maintain in good condition and continuously operate said Project and appurtenances rendered thereby so that the gross income and revenues will be sufficient at all times to pay the accruing interest and retire the bonds when the same will become due and to provide reserves therefor, and also to pay all costs and expenses of operating and maintaining said Project and to provide for an adequate depreciation account.

So long as any of the Bonds remain outstanding, as an expense of operation and maintenance of the Project procure, the District shall carry and maintain insurance on properties subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other corporations which own and maintain water supply and distribution systems under similar conditions, and that so long as Farmers Home Administration is the holder or insurer of any bond it will be listed as a co-beneficiary on each such policy.

Section 10: That for the further protection of the holders of the Bonds a statutory mortgage lien upon said Project is granted and created by Section 106.080 of the Kentucky Revised Statutes; which said statutory mortgage lien is hereby recognized and declared to be valid and binding upon the District and all property constituting the Project and shall take effect immediately upon the delivery of any of the Bonds. Any holder of said Bonds may, either at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties and obligations of the District as herein set forth.

In the event there shall be default in the Sinking Fund, provisions herein provided or in the payment of the principal or interest of any of the Bonds, then upon the filing of a suit by any holder of the Bonds any court having jurisdiction of the action may appoint a receiver to administer said Project on behalf of the District with power to charge and collect rates

sufficient to provide for the payment of the Bonds and for the payment of operating expenses, and to apply the income and revenues in conformity with this resolution and the laws of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the system, pursuant to any valid court order in a procedure brought to enforce collection or payment of District obligations, all contracts and other rights of the District, conditionally, for such time only as such receiver or operator shall operate by authority of the Court.

The holder of any of the Bonds in the event of default may require the Commission by mandatory injunction to raise the rates a reasonable amount.

SECTION 11: That the bonds authorized hereby shall not be entitled to priority one over the other in the application of the income and revenues of said Project, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Bonds authorized to be issued by this resolution, regardless of the fact that they may be actually issued and delivered at different times.

In the event Farmers Home Administration of the United States of America is the holder of or insurer of any of the Bonds, no additional capital debts can then be created on the water system or any extension or part thereof, without written permission of said Farmers Home Administration.

Subject to this provision, said District may construct and finance by separate bond issues and otherwise additions to the system, from time to time.

The District may issue additional parity bonds for the purpose of completing the construction or for the purpose of making a reasonable extension if the Government consents at any time during the period of the Government is the holder or the insurer of any of the bonds.

The funds established herein shall be applied to all parity bonds issued pursuant to this section as if said bonds were part of the original bond issue, and all revenue from any extension constructed by the proceeds of a parity bond shall be paid to the revenue account established by this resolution, and this provision shall be controlling over any provisions of this resolution to the contrary.

In the event the Government is no longer the holder or insurer of any of the initially insured bonds, then the written consent of the holders of 2/3 of the outstanding bonds will be required for the issue of additional parity bonds.

SECTION 12: That while any Bonds are outstanding and unpaid and to the extent not now prohibited by law, the Project shall be operated and maintained on a fiscal year basis commencing on July 1 of each year, which period shall also constitute the budget year for the operation and maintenance of said properties. Not later than 60 days after the beginning of each fiscal year, after the Project becomes revenue producing, the District and its Commission agree to cause to be prepared a detailed statement of income and expenditures for the past year, a current financial statement and a "Proposed Annual Budget of Current Expenses" of said Project for the ensuing fiscal year, itemized on the basis of monthly requirements. A copy of such "Proposed Annual Budget of Current Expenses" shall be mailed to any bond holder who may request in writing a copy of such budget, and to the FHA if the Government is the holder or insurer of any of said Bonds. If the holders of fifty per cent of the outstanding bonds or the Government so long as it is the holder or insurer of any of said Bonds so request, the Commission shall hold an open hearing not later than thirty days before the beginning of the ensuing fiscal year, at which any bond holder may appear by agent or attorney, and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen

days before the hearing to each registered bond holder and Government.

The District and its Commission covenant that annually before the first day of September, the Annual Budget of Current Expenses for the then current fiscal year will be adopted substantially in accordance with the preliminary or proposed Annual Budget, and that no expenditures for operation and maintenance expenses of said Project in excess of the Budget shall be made during such fiscal year unless directed by said Commission by a specific resolution duly adopted.

SECTION 13: The provision of this resolution shall constitute a contract between the District and its Commission and the holders of the Bonds as may be outstanding from time to time, and the United States Government (for so long as it is holder or insurer of such bonds), and after the issuance of any of said bonds no change, alteration, or variation of any kind of the provisions of this resolution shall be made in any manner except with written consent of all bond holders and the United States Government (for so long as it is holder or insurer of such bonds) until such time as all of said bonds and the interest thereon have been paid in full.

SECTION 14: The Treasurer of the District or other person having custody of District funds shall execute a fidelity bond in an amount of not less than \$\_\_\_\_\_, but the holders of the majority of the bonds outstanding may in writing direct that said bond be a higher or lower sum.

The Government shall be a co-obligee of any such fidelity bond so long as Farmers Home Administration is the holder or insurer of any bond.

SECTION 15: The District shall at time of final acceptance of the system from the contractor insure all electric meters and elevated storage tanks in an amount recommended by the District's Engineer, and approved by the Government for the hazards usually covered in this county.

SECTION 16: Interest during construction will be paid from connection fees and bond proceeds.

SECTION 17: The Secretary of the Commission is hereby authorized and directed to cause notice for bids for the purchase of said bonds to be published pursuant to all applicable Kentucky Statutes and pursuant to the direction of the Kentucky State Director, Farmers Home Administration, if such bonds are to be insured by that agency. The notice shall state the number of bonds to be sold, that they will carry a guarantee from the Government, the time and place of sale, that a good faith certified check representing at least 2% of the bond issue must accompany the bid, unless the bid is made by the Government.

The bonds will be awarded to the bid offering the lowest net cost to the District, inclusive of interest and insurance charges. No bid of more than 4% interest to the lender will be considered, nor any bid not at par value of the principal amount, nor any bid at other than the same interest rate for all bonds of this entire issue. In the event there is no bid, or that all bids are rejected, the District may re-advertise the sale pursuant to this resolution, or at its discretion may sell the bonds to the Government, to be held by the Government or recold in insured or uninsured form, as the Government may at any time decide.

As insurer of the bonds the Government reserves the right to approve or disapprove the award made by the District.

SECTION 18: If any section, paragraph, clause or provision of this resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this resolution.

SECTION 19: All ordinances, resolutions and orders, or parts thereof, in conflict with the provisions of this resolution are to the extent of such conflict hereby repealed. If part hereof

is invalid, the remainder shall continue in effect. The District will repeat any required procedure previously invalidly taken.

SECTION 20: That this resolution shall be effective immediately upon adoption.

Adopted this 1st day of March, 1966.

*James B. Pender*  
CHAIRMAN

(SEAL)

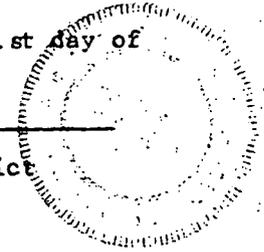
ATTEST:

*Jewell Earle*  
Secretary

I, Jewell Earle, certify that I am Secretary of the Muhlenberg County Water District and that the foregoing Bond Resolution is a true copy of said resolution as contained in the minute books of said water district.

WITNESS my hand and seal as Secretary this 1st day of March, 1966.

*Jewell Earle*  
Jewell Earle, Secretary  
Muhlenberg County Water District



SUBLEASE

THIS SUBLEASE, made and entered into this the 12th day of November, 1992, by and between MUHLENBURG COUNTY, KENTUCKY, County Courthouse, P. O. Box 137, Greenville, KY 42345, herein referred to as Sublessor and MUHLENBURG COUNTY WATER DISTRICT, Dean Road, P. O. Box 348, Greenville, KY, 42345, hereinafter referred to as Sublessee.

W I T N E S S E T H:

WHEREAS, on the 12th day of November, 1992, the County as Lessee entered into a Lease Agreement with Kentucky Association of Counties Leasing Trust, hereinafter referred to as CoLT, as Lessor, a copy of said Lease being attached hereto as Exhibit A and incorporated herein by reference;

WHEREAS, the County finds that it is to the best interest and service of the taxpayers, citizens, and inhabitants of the County that Muhlenburg County Water District be allowed to utilize the properties making up the "Project" as set out in the attached Lease;

WHEREAS, the Muhlenburg County Water District finds that it is in the best interest of the taxpayers, citizens, and inhabitants of the County to utilize those properties described as the "Project" in the attached Lease and pay the County for such use the amount of the rentals required to be paid by the terms of the attached Lease by the County to CoLT;

WHEREAS, it is the desire of the County that on the termination of the attached Lease, and all terms and conditions thereof having been performed by all the parties hereto, that any and all right, title, and interest in and to the property described in the attached Lease as the "Project" be transferred and conveyed by CoLT to the County or its designee;

NOW, THEREFORE, that for and in consideration of Sublessee agreeing to pay any and all rental payments and other charges as set out in schedule B to the Lease attached Exhibit A, or payments required to be paid under the Lease, and any and all other charges or costs incurred by the Sublessor as a result of the attached Lease and subject to the terms, provisions and stipulations hereinafter set forth, Sublessor does hereby demise, sublet, and sublease unto Sublessee for the terms hereinafter specified, the Subject Premises located in Muhlenburg County, Kentucky, and more particularly described in the Lease which is attached hereto as Exhibit A.

1. The terms, provisions and stipulations of this Sublease are the same terms, provisions and stipulations as set forth in the Lease (including "the term") which is attached hereto as Exhibit A, and both Sublessor and Sublessee agree to be bound thereto; except that the parties hereto agree that all rental payments and other charges are to be paid by Sublessee to the Sublessor and the Sublessor will thereafter make said payment to COLT.

2. ASSIGNMENT AND SUBLETTING. The Sublessee shall not have the right to assign the Sublease or sublease the subject property in whole or in part without first obtaining the written consent of the Sublessor, Lessor and the Credit Facility Provider.

3. BINDING AGREEMENT. All of the covenants, agreements, terms, conditions, provisions and undertakings in this Sublease or any amendments hereto, shall inure to the benefit of, being enforced by, and be binding upon, the respective heirs, executors, administrators, successors and assigns of the Sublessee and the Sublessor.

4. ENTIRE UNDERSTANDING. The Sublease and the exhibits attached hereto contain the entire understanding and agreement of the parties hereto, no other understanding, undertaking, agreement, representation or warranty shall alter or modify this Sublease or the terms hereof unless the same is in writing and duly executed by the parties hereto.

IN WITNESS WHEREOF, Sublessor and Sublessee have duly executed this Sublease as of the day and year first above written.

SUBLESSOR:

SUBLESSEE:

MUHLENBURG COUNTY, KENTUCKY

MUHLENBURG COUNTY WATER DISTRICT

BY: Robert Draper  
ROBERT DRAPER  
COUNTY JUDGE/EXECUTIVE

BY: Joseph L. Holland  
JOSEPH HOLLAND  
CHAIRMAN

WITNESS:

WITNESS:

Gayla Spunkin

Bobby L. Croger

Pursuant to Section 13.2 of the Lease "Exhibit A" attached hereto between Kentucky Association of Counties Leasing Trust and Muhlenburg County, Kentucky, said Kentucky Association of Counties Leasing Trust as Lessor, does hereby give written consent to the Sublease to Muhlenburg County Water District

Dated this the \_\_\_th day of \_\_\_\_\_, 1992.

KENTUCKY ASSOCIATION OF  
COUNTIES LEASING TRUST

By: \_\_\_\_\_  
ROBERT T. HARROD, Chairman

Pursuant to Section 13.2 of the attached Lease Exhibit "A," by and between Kentucky Association of Counties Leasing Trust, Lessor, and Muhlenburg County, Kentucky, as Lessee, the Commonwealth Bank of Australia, as the Credit Facility Provider to the bond issue underwriting the funding of the attached Lease, does hereby give written consent to the assignment of the attached Lease by Muhlenburg County, Kentucky, as Lessee to Muhlenburg County Water District under the terms of the hereinbefore assignment.

Dated this \_\_\_th day of \_\_\_\_\_, 1992.

COMMONWEALTH BANK OF AUSTRALIA

By: \_\_\_\_\_

FILED

NOV 12 11:32

GAYLAN L. SPURGIN, CLERK  
MUHLENBURG COUNTY  
D.C.

State of Kentucky, SCT  
Muhlenburg County

I Gaylan L. Spurgin, Clerk of Muhlenburg County, certify that the foregoing Sublease was legally lodged in my office for record 11-12-92 1:32 and the same, the foregoing. And this certificate have been duly recorded therein.

Given under my hand this the 12 day of Nov. 1992

Clerk

*Gaylan Spurgin*  
Kathy Saddle D.C.

SUBLEASE

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WHEREAS, the Muhlenburg County Water District finds that it is in the best interest of the taxpayers, citizens, and inhabitants of the County to utilize those properties described as the "Project" in the attached Lease and pay the County for such use the amount of the rentals required to be paid by the terms of the attached Lease by the County to CoLT;

WHEREAS, it is the desire of the County that on the termination of the attached Lease, and all terms and conditions thereof having been performed by all the parties hereto, that any and all right, title, and interest in and to the property described in the attached Lease as the "Project" be transferred and conveyed by CoLT to the County or its designee;

NOW, THEREFORE, that for and in consideration of Sublessee agreeing to pay any and all rental payments and other charges as set out in schedule B to the Lease attached Exhibit A, or payments required to be paid under the Lease, and any and all other charges or costs incurred by the Sublessor as a result of the attached Lease and subject to the terms, provisions and stipulations hereinafter set forth, Sublessor does hereby demise, sublet, and sublease unto Sublessee for the terms hereinafter specified, the Subject Premises located in Muhlenburg County, Kentucky, and more particularly described in the Lease which is attached hereto as Exhibit A.

1. The terms, provisions and stipulations of this Sublease are the same terms, provisions and stipulations as set forth in the Lease (including "the term") which is attached hereto as Exhibit A, and both Sublessor and Sublessee agree to be bound thereto; except that the parties hereto agree that all rental payments and other charges are to be paid by Sublessee to the Sublessor and the Sublessor will thereafter make said payment to COLT.

2. ASSIGNMENT AND SUBLETTING. The Sublessee shall not have the right to assign the Sublease or sublease the subject property in whole or in part without first obtaining the written consent of the Sublessor, Lessor and the Credit Facility Provider.

3. BINDING AGREEMENT. All of the covenants, agreements, terms, conditions, provisions and undertakings in this Sublease or any amendments hereto, shall inure to the benefit of, being enforced by, and be binding upon, the respective heirs, executors, administrators, successors and assigns of the Sublessee and the Sublessor.

4. ENTIRE UNDERSTANDING. The Sublease and the exhibits attached hereto contain the entire understanding and agreement of the parties hereto, no other understanding, undertaking, agreement, representation or warranty shall alter or modify this Sublease or the terms hereof unless the same is in writing and duly executed by the parties hereto.

IN WITNESS WHEREOF, Sublessor and Sublessee have duly executed this Sublease as of the day and year first above written.

SUBLESSOR:

SUBLESSEE:

MUHLENBURG COUNTY, KENTUCKY

MUHLENBURG COUNTY WATER DISTRICT

By: Robert Draper  
ROBERT DRAPER  
COUNTY JUDGE/EXECUTIVE

By: Joseph L. Holland  
JOSEPH HOLLAND  
CHAIRMAN

WITNESS:

WITNESS:

Gayla Spucki

Bobby B. Creager

Q16. a. When did Muhlenberg District first prepare or commission a cost-of-service study to determine the appropriate rate for its water service?

RESPONSE: No cost-of-service study has been done.

b. (1) Who prepared this study?

RESPONSE: N/A

(2) Provide the preparer's curriculum vitae?

RESPONSE: N/A

(3) List all cases before the Commission in which the preparer has submitted a cost-of-service study.

RESPONSE: N/A

(4) List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

RESPONSE: N/A

c. Provide a copy of this study.

RESPONSE: N/A

WITNESS: Damon R. Talley, Attorney

Q17. a. Has Muhlenberg District subsequently prepared or commissioned a cost-of-service study to determine the appropriate rate for its water service?

RESPONSE: NO

b. For each subsequent study:

(1) Who prepared this study?

RESPONSE: N/A

(2) Provide the preparer's curriculum vitae?

RESPONSE: N/A

(3) List all cases before the Commission in which the preparer has submitted a cost-of-service study.

RESPONSE: N/A

(4) List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

RESPONSE: N/A

(5) Provide a copy of the cost-of-service study.

RESPONSE: N/A

WITNESS: Damon R. Talley, Attorney

Q18. a. If no cost-of-service study has been performed on Muhlenberg District's operations, describe rate reviews or studies that have been performed to review the fairness of Muhlenberg District's present rate structure.

RESPONSE: The PSC reviewed and approved the District's present declining block rate structure in PSC Case No. 9539 on January 28, 1987 (See attached tariff dated January 28, 1987). All rate increases since then have been uniform, across the board, percentage increases for each rate block.

b. Provide a copy of each review or study performed.

RESPONSE: N/A

WITNESS: Rebecca Wright, MCWD  
Joe Holland, Chairman, MCWD

P.S.C. Ky. No. 9539

Sheet No. 1 of 2

MUHLENBERG COUNTY WATER DISTRICT

Cancelling P.S.C. Ky. No. \_\_\_\_\_

Sheet No. \_\_\_\_\_

RULES AND REGULATIONS

Pursuant to an order of the Public Service Commission, Frankfort, Kentucky, Case No. 9539, dated January 28, 1987, the Muhlenberg County Water District charges for water service will be as follows effective with the next customer billing:

RATES: Monthly

5/8 x 3/4 Inch Connection

First 2,000 gallons	\$10.10 Minimum Bill
Next 8,000 gallons	4.60 per 1,000 gallons
Next 10,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

1 Inch Connection

First 5,000 gallons	\$23.90 Minimum Bill
Next 5,000 gallons	4.60 per 1,000 gallons
Next 10,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

JAN 28 1987

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: James C. Spurrin

1 1/2 Inch Connection

First 11,000 gallons	\$50.90 Minimum Bill
Next 9,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

DATE OF ISSUE February 9, 1987  
Month Day Year

DATE EFFECTIVE January 28, 1987  
Month Day Year

ISSUED BY James C. Spurrin Chairman  
Name of Officer Title  
James Spurrin

Muhlenberg County Water Dist  
P.O. Box 348  
Greenville, KY 42345  
Address

MUHLENBERG COUNTY WATER DISTRICT

Cancelling P.S.C. Ky. No. \_\_\_\_\_

Sheet No. \_\_\_\_\_

RULES AND REGULATIONS

2 Inch Connection

First 16,000 gallons	\$70.90 Minimum Bill
Next 4,000 gallons	4.00 per 1,000 gallons
Next 30,000 gallons	3.35 per 1,000 gallons
Over 50,000 gallons	2.45 per 1,000 gallons

Wholesale Customer

Drakesboro \$ 1.80 per 1,000 gallons

Non-Recurring Charges

Service Run Fee	\$15.00
Delinquent Service Charge	22.35
Customer Deposit	twice one average monthly water bill for all new customers

Connection Fees

1 Inch Connection	\$468.00
1 1/2 Inch Connection	851.00
2 Inch Connection	930.00

Fire Hydrant

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE \$1,240

JAN 23 1987

PURSUANT TO 807 KAR 5:011,  
SECTION 2 (1)

BY: J. Geoghegan

DATE OF ISSUE February 9, 1987  
Month Day Year

DATE EFFECTIVE January 28, 1987  
Month Day Year

ISSUED BY James C. Spurlin Chairman  
Name of Officer Title  
James Spurlin

Muhlenberg County Water Distri  
P. O. Box 348  
Greenville, KY 42345  
Address

Q19. Describe how the proposed rates to the city of Drakesboro, Kentucky ("Drakesboro") and the Tennessee Valley Authority Paradise Fossil Electric Generating Plant ("Paradise") were determined.

RESPONSE: See response to question 18. The proposed wholesale rate was calculated by increasing the current wholesale rate by approximately the same percentage as the retail rates are proposed to be increased. By agreement with Paradise, and with PSC approval, the rate charged Paradise is the same rate paid by the City of Drakesboro (See tariff dated December 24, 1992).

WITNESS: Damon R. Talley, Attorney

FOR Muhlenberg County  
Community, Town or City  
P.S.C. NO. \_\_\_\_\_  
SHEET NO. \_\_\_\_\_  
CANCELLING P.S.C. NO. \_\_\_\_\_  
SHEET NO. \_\_\_\_\_

Muhlenberg County Water Dist  
Name of Issuing Corporation  
Greenville, Ky

CLASSIFICATION OF SERVICE \_\_\_\_\_  
RATE  
PER UNIT \_\_\_\_\_

Rates to be charged to the Tennessee Valley Authority, Drakesboro, Kentucky.

The water charges to be made by the Muhlenberg County Water District to the Tennessee Valley Authority, Paradise Steam Plant, Drakesboro, Kentucky, shall be those same rates charged from time to time as they are approved by the Public Service Commission for water sold to the city of Drakesboro, Kentucky, being the whole-sale rate of the district, currently \$ 1.96 per thousand gallons.

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE

DEC 24 1992

PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: Joseph L. Holland  
PUBLIC SERVICE COMMISSION MANAGER

DATE OF ISSUE November 23, 1992 DATE EFFECTIVE on PSC Approval  
ISSUED BY Joseph L. Holland TITLE Chairman  
Name of Officer

Issued by authority of an Order of the Public Service Commission of  
Kentucky  
in Case No. \_\_\_\_\_ dated \_\_\_\_\_

Q20. Identify each Muhlenberg District facility that is used exclusively to provide water service to either Drakesboro or Paradise or both. For each facility listed, state the wholesale customer(s) who is (are) served exclusively by that facility.

RESPONSE: The facilities listed below are used to provide water service to both Drakesboro and Paradise (Paradise is located adjacent to Drakesboro).

Powderly Pump Station  
Powderly Tank  
Beech Creek Pump Station  
Beech Creek Tank  
Cleaton Pump Station  
Cleaton Tank  
TVA (Paradise) Pump Station  
TVA (Paradise) Tank

WITNESS: Carl "Herb" Jackson, Assistant Supt., MCWD  
Joe Henry, GRW Engineers, Inc.

Q21. a. How many master meters are used to serve Drakesboro?

RESPONSE: Two (2)

b. State the size of each master meter.

RESPONSE: 4" and 1"

c. Who is responsible for the maintenance of the master meter(s)?

RESPONSE: Muhlenberg District

WITNESS: Rebecca Wright, MCWD  
Carl "Herb" Jackson, MCWD

Q22. a. How many master meters are used to serve Paradise?

RESPONSE: One (1)

b. State the size of each master meter.

RESPONSE: 6"

c. Who is responsible for the maintenance of the master meter(s)?

RESPONSE: Muhlenberg District

WITNESS: Rebecca Wright, MCWD  
Carl "Herb" Jackson, MCWD

Q23. Provide the total inch miles by line size contained in Muhlenberg District's system.

RESPONSE: See response to question 24.

WITNESS: Carl "Herb" Jackson, MCWD  
Joe Henry, GRW Engineering, Inc.

Q24. Complete the table below:

<b>Water Main Size</b>	<b>Total Miles of Line</b>	<b>Inch Miles</b>	<b>Miles of Lines Used Jointly by Muhlenberg District, Drakesboro &amp; Paradise</b>	<b>Jointly Used Inch Miles</b>
16"	0	0	0	0
14"	0	0	0	0
12"	6	72	6	72
10"	40	400	33	330
8"	60	480	29	232
6"	225	1,350	11	66
4"	60	240	0	0
3"	69	207	0	0
2"	15	30	0	0
<b>TOTALS</b>	<b>475</b>	<b>2,779</b>	<b>79</b>	<b>700</b>

WITNESS: Carl "Herb" Jackson, MCWD  
 Joe Henry, GRW Engineering, Inc.

Q25. Provide for each calendar year from 1995 through 1999 the total annual operation and maintenance expense and the percentage increase or decrease over the prior calendar year expense level.

RESPONSE:

<u>YEAR</u>	<u>O &amp; M EXPENSE</u>	<u>AMOUNT OF INCREASE</u>	<u>% INCREASE</u>
1994	\$ 1,447,484	N/A	N/A
1995	1,536,829	\$ 89,345	6.2%
1996	1,656,655	119,826	7.8%
1997	1,730,309	73,654	4.4%
1998	1,788,350	58,041	3.4%
1999	1,956,744	168,394	9.4%

WITNESS: Rebecca Wright, MCWD  
Charles R. Lewis, CPA

Q26. State why Muhlenberg District requires an automatic adjustment mechanism based upon the Consumer Price Index.

RESPONSE: As shown in the response to question 25, the District's annual operation and maintenance expenses have been increasing from 3.4% to 9.4% during each of the last five (5) years. The average annual increase has been 6.2%. This is more than the annual inflation rate. If the District is allowed to automatically adjust its rates annually, then it can more timely recover some of these increased costs. In addition, the District's customers will be more receptive to small, annual rate adjustments than to occasional, large rate increases such as the 25% increase requested in this case.

WITNESS: Joe Holland, MCWD  
Charles R. Lewis, CPA

Q27. State why the Consumer Price Index for Urban Wager Earners and Clerical Workers ("CPI-W") is the appropriate index which to base any automatic adjustment mechanism.

RESPONSE: The CPI-W is the cost-of-living adjustment ("COLA") index used by the Social Security Administration. Consequently, it is the most widely recognized inflation index. Using an index which is recognizable and understood by both the general public and the District's customers is very important. If the District were to use a different index, it would confuse its customers.

WITNESS: Joe Holland, MCWD  
Damon R. Talley, Attorney

Q28. Identify all price indexes other than the CPI-W that Muhlenberg District considered when developing its rate adjustment proposal. For each index identified, explain why Muhlenberg District chose not to use that index.

RESPONSE: The District considered using the Gross Domestic Product Implicit Price Deflator ("GDP-IPD") index. The GDP-IPD is used by the utility regulatory commission in one or more other states. Historically, the GDP-IPD and the CPI-W have been very similar. Therefore, the District prefers to use the CPI-W index because it is more widely recognizable and understood than the GDP-IPD.

WITNESS: Joe Holland, MCWD  
Damon R. Talley, Attorney

Q29. Provide the proposed tariff sheet that will govern the operation of the proposed automatic adjustment mechanism.

RESPONSE: This will be provided at a later date.

WITNESS: Damon R. Talley, Attorney

Q30. Under the proposed automatic adjustment mechanism, on what date would the annual adjustment for inflation be made?

RESPONSE: The CPI-W is announced and published by the U. S. Bureau of Labor Statistics in late November of each year. Notice will need to be provided to the public, including District customers. The PSC will need time to review the proposed adjustment for accuracy. Therefore, an anniversary date of February 1 or March 1 seems reasonable.

WITNESS: Damon R. Talley, Attorney

Q31. What notice of a rate adjustment would be provided to Muhlenberg District customers under the proposed automatic adjustment mechanism?

RESPONSE: Initial notice was provided at the time this rate application was filed with the PSC. (See Exhibit 24 to the District's application.) Notice in subsequent years should be provided after the PSC issues a letter approving the proposed adjustment, but no later than the rendering of the first bill at the revised rate.

WITNESS: Damon R. Talley, Attorney

Q32. Explain the relationship between the CPI-W and the cost of distributing water.

RESPONSE: Historically, the CPI-W annual percentage increase has been significantly less than the increase in the District's operation and maintenance expenses (See response to questions 25 and 26). Wage increases, health insurance premium increases, and transportation expenses are significant components of the District's increased operation and maintenance expenses. Increases in wages, health insurance premiums, medical expenses, transportation expenses, and other cost-of-living expenses are included in the computation of the annual CPI-W Index.

WITNESS: Damon R. Talley, Attorney  
Charles R. Lewis, CPA

Q33. Provide all purchase agreements and contracts for employment or services to which Muhlenberg District is currently a party and which contain cost adjustment provisions.

RESPONSE: There are no such contracts in existence. Historically, all District employees have received cost of living adjustments in January of each year. Because of financial constraints, the employees did **not** receive a cost of living adjustment **nor** a salary increase in 1999 or 2000.

WITNESS: Rebecca Wright, MCWD  
Joe Holland, Chairman, MCWD

Q34. Provide the minutes for all meetings of Muhlenberg District's Board of Commissioners held since January 1, 1998.

RESPONSE: Copies are attached.

WITNESS: Rebecca Wright, MCWD

## MINUTES OF JANUARY 26, 1998 MEETING

The regular meeting of the Muhlenberg County Water District Commission was called to order by Joe Holland, Chairman.

James Spurlin made a motion to dispense with the reading of the minutes to recognize visitors at this time. Bobby Creager 2nd the motion. Said motion carried.

Ray Butler was present to discuss a problem with pressure in the Twin Tunnel area. He is wanting to move a trailer there. Joe Henry is to evaluate the situation and see if booster pumps in the lines would help. Larry Reno is to get back with Mr. Butler to let him know Joe's findings.

Joe Henry was present to discuss the District building a treatment plant in the near future. Judge Rodney Kirtly, Daniel Bowles, Jim McDonald, and John Hopgood, Magistrates, were present to discuss the matter. The following is a summary of his discussion:

### Improvements to Be Done

2.5 million gallon a day treatment plant  
500,000 gallon tank  
60,000 feet transmission mains  
Total Capital Improvements: \$8,500,000

### Benefits of Improvements

1. Safe and reliable water supply
2. Economic control
3. Future capacity
4. Economic Development on Hwy 431
5. Central City- avoided costs

### Cost to Customer

15-20 % all rates will increase immediately  
Future- will be lower rates

There was discussion on the need to begin immediately to take steps for the treatment plant construction. Joe Henry is to check with PSC as to what the process needs to be and get back with the Commission.

Joe Henry spoke on the rate analysis. James Spurlin made a motion for Joe Henry to proceed with a rate increase before PSC. Bobby Creager 2nd the motion. Said motion carried.

The line extension was discussed. It was stated that we have requested that we be given until April 1, 1998 to file new tariff with PSC. It was decided that everyone bring suggested items to the February meeting. Items will be accepted and sent to Brent to compile the line extension policy.

James Spurlin made a motion to approve bills for payment adding K and W bill for \$442.19. Bobby Creager 2nd the motion. Said motion carried.

The newspaper editorial on a customer's complaint was discussed at this time. It was decided that the employees acted appropriately in the situation.

There was discussion on the letter from Central City on their request for annexation of some property in our boundary. The request is to be given to Brent Yonts for study and evaluation before signing and returning.

James Spurlin made a motion to accept the holidays as listed for 1998. Bobby Creager 2nd the motion. Said motion carried. A copy is made a part of the minutes for future reference.

James Spurlin reported on the PADD meeting that he and James Hill attended on January 20, 1998. He said they encouraged everyone to contact legislative representatives to extend the deadline for Phase II of the Water Supply Plan. He also discussed a mapping system they had available.

There was discussion on the demonstration that James Hill and James Spurlin went to on the radio reading devices in Leitchfield on January 21. They were very impressed with the equipment. They have been invited to Franklin, Tennessee to see demonstration with complete installation.

There was discussion on a back hoe from K and W equipment. It was stated that they would need \$5,000 plus a trade in of 310 E we currently have to purchase a new 310 SE without air conditioning and \$7,500 with trade in with air conditioning. James Spurlin made the motion to get 310 SE with airconditioning and the motion died for lack of 2nd. Bobby Creager made a motion to get 310 SE without airconditioning and with a 2 foot bucket. Joe Holland 2nd the motion. Said motion carried.

There was discussion on office employees needing Doris Uzzle to fill in as needed when someone had to be off. Bobby Creager made a motion for her to work as needed. James Spurlin 2nd the motion. Said motion carried.

Becky Wright asked permission for us to be put on list to get computer hardware updates to meet needs in 2,000. It was decided that she ask CRC to put us on the list for whatever is necessary.

Bronner Edwards was off 4 days last week with the flu. He requested to take that as vacation and be paid for the Monday he worked that week. It was decided that he would have to take sick days.

There was discussion on the District paying for the CDL physicals if an employee went out of the network on the new insurance. It was stated that if the employees went in the network for their CDL physicals, the insurance would pay all but \$5. Employees will be responsible for any amount the insurance does not pay on CDL physicals.

Keith Peterson is to be taken off of on call due to the fact that he is subject to be called out more often than other employees on electrical and telemetry problems. Tony Kirby and Kenny Sparks will be on call partners as a result of this.

The letter to Central City on muddy water expenses was discussed at this time. It was decided that Herb Jackson approve the letter, Larry and he sign it, and send it to Central City.

A motion was made by James Spurlin and 2nd by Bobby Creager to pay \$474.00 for maintenance agreement on the office copier. Said motion carried.

James Spurlin made a motion to approve the minutes of the December 22, 1997 meeting. Joe Holland 2nd the motion. Said motion carried.

James Spurlin made a motion to adjourn. Bobby Creager 2nd the motion. Said motion carried.

Respectfully submitted,

*Rebecca Wright*

Rebecca Wright, Recording Secretary

Joe Holland, Chairman

*James Spurlin*  
James Spurlin, Secretary

cc  
CHAIRMAN *Bobby Creager*

MINUTES OF THE FEBRUARY 23, 1998 MEETING

The regular meeting of the Muhlenberg County Water District Commission was opened by James Spurlin, Acting Chairman in the absence of Joe Holland.

Bobby Creager made a motion to dispense with the reading of the minutes to recognize visitors. James Spurlin 2nd the motion. Said motion carried.

Kim Oatman of Trinity Engineering, Inc. was here to discuss Land Development at North and South Lake Malone. He is the engineer for land developers in this area. After Mr. Oatman's presentation and discussion from the Commission, Bobby Creager made a motion based on the drawing presented by Mr. Oatman and Joe Henry's recommendation that we supply water to North Lake Malone and the developer must supply water lines. Line will be warranted for one year at which time the District will assume responsibility. Mr. Oatman will supply the District with 2 maps, and the extension will have to be approved by Joe Henry and the Division of Water. An agreement must be signed for them to supply water lines and us assume responsibility within one year. James Spurlin 2nd the motion. Said motion carried.

On the South Lake Malone area it was stated that it would be better for Todd County to supply the water, and we would sign an agreement for them to be able to serve in Muhlenberg County. We gave Mr. Oatman a copy of a previous agreement that we had with Todd County. He is to contact Brent Yonts to discuss this further with him. We will have to get approval from Fiscal Court and PSC on entering into this agreement with Todd County.

Bobby Creager made a motion to approve the minutes of January 26, 1998. James Spurlin 2nd the motion. Said motion carried. Bobby Creager made a motion to approve bills for payment along with those added. A list of bills to be paid is made a part of the minutes for future reference. James Spurlin 2nd the motion. Said motion carried.

There was discussion on an in-line booster pump for Mark Carver at Beech Creek and William Ray Butler at Twin Tunnel. Bobby Creager made a motion that Larry Reno work with the customers on the best option with customer possibly paying power bill and the District installing the pump. James Spurlin 2nd the motion. Said motion carried. Larry is to get one for demonstrator at Mark Carver's if feasible.

James Spurlin made a motion to send agreement to Central City on annexation of property in Nelson, with the District reserving its service area. James Spurlin and Bobby Creager signed the agreement and it will be sent when Joe Holland signs. Bobby Creager 2nd the motion. Said motion carried.

There was discussion on the letter from Central City stating that they are not liable for damages done by muddy water in July 1997. Their letter will be given to Brent Yonts for further action.

There was discussion on the request of the Extension Office for lower rates on a 3" meter. They have filed a complaint with Public Service Commission and Brent Yonts has responded by stating that we have a tarriff with Public Service for our rates on a 3" meter and cannot charge rates other than stated in our present tarriff.

A motion was made by Bobby Creager and 2nd by James Spurlin to ammend the motion made September 17, 1988 to state that Brent Yonts hourly rate is to be \$85 rather than \$65 not to exceed paying him \$400 per month.

A motion was made by Bobby Creager that Larry Reno tell Brent Yonts what is needed on line extension for subdivision, commercial, and in-line booster pumps. Brent is to compile the line extension agreement to be read, approved, signed by Commission and filed with the Public Service Commission as soon as completed. James Spurlin 2nd the motion. Said motion carried.

There was discussion on meeting with PSC on treatment plant and rate increase. The Commissioners are to set a time to meet with Joe Henry and Public Service Commission on this.

Bobby Creager made a motion to bid out new trencher just like the one we currently have. James Spurlin 2nd the motion. Said motion carried. To open bids at the March meeting.

James Spurlin made a motion to put in McNary line extension as soon as possible because eight families are without water since their well went dry. This will be done immediately because of the emergency situation. There will be 11 customers served by the line. Bobby Creager 2nd the motion. Said motion carried.

James Spurlin made a motion to bid the truck that was wrecked out. The money that is received on the sale and the insurance money will be used to purchase a new truck. Bronner's truck will be traded in on a new truck. The two trucks to purchase one with trade-in and one without a trade-in will be bid out and opened at the March meeting along with the bids for the truck to be sold. Bobby Creager 2nd motion. Said motion carried.

James Spurlin, James Hill, Becky Wright, Carl Jackson, and Bobby Creager are to go the Kentucky Rural Water Management Conference in Bowling Green April 15 & 16. Becky Wright is to go to a seminar on Computers in 2000 at Madisonville March 19. Rooms for the National Rural Water Convention will be gotten later when it is decided who will go.

There was discussion on a back hoe trailer needing to be purchased. Larry Reno is to check on this.

There was discussion on more help needed in operations. It was decided to possibly hire a new meter reader.

It was reported that our underground gas tank had a leak. The District is installing a metal above ground tank which meets EPA specifications.

James Spurlin made a motion to adjourn. Bobby Creager 2nd the motion. Said motion carried.

Respectfully submitted,

*Rebecca Wright*

Rebecca Wright, Recording Secretary

Joe Holland, Chairman

*James Spurlin*  
James Spurlin, Secretary

cc Chairman

*Bobby H. Creager*

MINUTES OF THE MARCH 23, 1998 MEETING

The regular meeting of the Muhlenberg County Water District Commission was opened by James Spurlin, acting Chairman. Bobby Creager made a motion to dispense with the readings to recognize visitors.

Bids were received and opened. The bids were as follows:

Ditch Witch Trencher.....\$40,251.00  
(with trade-in of old trencher)  
Trailer for trencher..... 3,100.00

Bobby Creager made a motion to purchase trencher and trailer. James Spurlin 2nd the motion. Said motion carried.

K and W trailer for backhoe.....\$ 5,000.00

James Spurlin made a motion to trade Interstate trailer for new trailer. Bobby Creager 2nd the motion. Said motion carried.

Truck bids to sell trucks were opened and were as follows:

James Reno.....\$1,126.50  
Larry Sparks..... 1,199.99  
James Roe..... 866.00

James Spurlin made a motion to sell Larry Sparks the 1992 GMC Sinoma for \$1,199.99. Bobby Creager 2nd the motion. Said motion carried.

Truck bids were opened for purchasing a truck with a trade in and without a trade in. The following were the bids:

1998 Dodge Dakota with trade in: \$9,055.00  
1998 Dodge Dakota without trade in \$13,255.00

James Spurlin made a motion to buy the truck with trade in and one without a trade in. Bobby Creager 2nd the motion. Said motion carried. One truck is to be used as a work order job truck and one a meter reading truck.

James Spurlin made a motion to approve minutes of the February 23, 1998 meeting. Bobby Creager 2nd the motion. Said motion carried.

James Spurlin made a motion to approve bills for payment adding Community Towel and Uniforms, Blue Cross & Blue Shield, Western Kentucky Gas, and Hutch and Son. Bobby Creager 2nd the motion. Said motion carried.

James Spurlin made a motion to approve the line extension ammended tarriff to send to PSC. Brent is to prepare for filing. Bobby Creager 2nd the motion..

It was decided that the rate increase and the treatment plant be discussed at the next meeting.

Joe Holland is to meet March 25, 1998 with PSC on the UK extension wanting a lower rate on their 3" meter.

The rate increase on insurance was discussed and Becky is to get alternative rates.

Jimmy Spurlin to get in touch with Todd County Superintendent and Dr. Brown, Chairman of Todd County Board, about Malone Meadows South wanting water for a subdivision in the area.

There was discussion on computers in the year 2000. The amount for new software and hardware needed was presented. This is to be discussed further at the next meeting.

Dunmor tank to get inspected, Herb to contact Joe Henry on this.

James Spurlin made a motion to adjourn and Bobby Creager 2nd the motion. Said motion carried.

Respectfully submitted,

*Rebecca Wright*

Rebecca Wright, Recording Sec.

*Joe Holland*  
Joe Holland, Chairman

*James Spurlin*  
James Spurlin, Secretary

MINUTES APRIL 27, 1998

The regular meeting of the Muhlenberg County Water District was opened at 4:00 by Joe Holland, Chairman.

James Spurlin made a motion to approve the minutes of the March 23, 1998 meeting. Bobby Creager 2nd the motion. Said motion carried.

James Spurlin made a motion to approve bills for payment including Larry's Appliance for \$29.60 and Kentucky State Treasurer for back fees on gas tank registration for \$240.00. Bobby Creager 2nd the motion. Said motion carried.

Joe Holland discussed the meeting he had with PSC on rate of UK Extension office. The Extension Office is requesting that we lower their 3" rate to a 3/4" residential rate, but we have a tarriff on file with Public Service Commission that states what rate we must charge. Joe reported that Public Service Commission will send us a ruling on this matter after they have reviewed all the pertinent information.

There was discussion on the employee health insurance rate incese of 28%, and it was decided that we will stay with the current insurance plan as is.

James Spurlin is to talk to Todd County Water Board after their meeting next week concerning Lake Malone South Meadows line extension. He is to report at the next meeting his findings.

There was discussion on the vehicle of James Hill being damaged in a recent accident. C. A. Lawton reported that our insurance should pay for the damages since the accident report stated no fault on either party. James Hill reported that the other party was at fault, and we should not have to pay the \$500 deductible. Brent Yonts is to call C. A. Lawton to discuss the matter with them.

Brent Yonts prepared a line extension tarriff and a leak adjustment tarriff for the commission to sign, and he will send to Public Service Commission for approval.

Brent Yonts is to send a letter to Central City on damages during their leak in July 1997.

There was discussion on employees serving on jury duty. It was decided that we would pay normal wages for employees on jury duty, and employees must bring all jury checks received to the District. They are to report to work before and after jury duty if applicable to jury duty times, and, if necessary, bring their clothes for changing to work on the day of duty.

The Commission went into executive session to discuss personnell matters concerning employee needs.

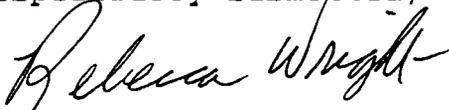
James Spurlin made a motion to hire 2 new employees. Kurt Sarnecke and Paul Douglas will be starting May 4, 1998. Bobby Creager 2nd the motion. Said motion carried.

James Spurlin made a motion to let bid for a new truck. Bids to be run in the paper May 6 and 13 and opened at May 21, 1998 meeting. Bobby Creager 2nd the motion. Said motion carried.

There was discussion on date to meet with PSC on rate increase and treatment plant. It was decided to discuss at the next meeting.

James Spurlin made a motion to adjourn. Bobby Creager 2nd the motion. Said motion carried. The next meeting will be on Thursday May 21, 1998 at 4:00 due to the holiday falling on the regular meeting day.

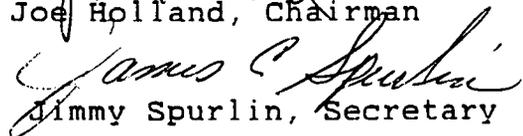
Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman



Jimmy Spurlin, Secretary

MINUTES OF MAY 21, 1998 MEETING

The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman.

James Spurlin made a motion to approve the minutes of the April 21, 1998 meeting. Bobby Creager 2nd the motion. Said motion carried.

Bobby Creager made a motion to pay the bills. There was 2 bills added, Lester Motors for rental on vehicle for James Hill during the time his truck was being repaired and \$500 deductible to Barry Shaver for truck repair. James Spurlin 2nd the motion. Said motion carried.

James Spurlin reported that he had talked to the Superintendent of Todd County Water on the Malone Meadows South Subdivision. Todd County is not interested in serving customers in Muhlenberg County. The District discussed buying water from Todd to sell to Malone Meadows South, but determined that it would not be feasible for them to do so.

Bobby Creager made a motion to approve the letter Brent prepared on damages and have them to attend our next meeting or set up a meeting. James Spurlin 2nd the motion. Said motion carried.

James Spurlin made a motion to buy 2 new handheld devices from Computer Resources. The price each would be \$1295.00. Bobby Creager 2nd the motion. Said motion carried.

There was discussion on computer hardware. It was discussed that we may need to wait until closer to 2000 to buy new hardware since there may be better equipment later. Becky is to contact Computer Resources to see how late we could safely wait to purchase the new hardware.

Truck bids were opened at this time. The following bid was received:

Lester Motor's.....\$13,255.00

James Spurlin made a motion to purchase the new truck at the bid price. Bobby Creager 2nd the motion. Said motion carried.

Bobby Lewis reported that the 1997 audit has been completed, and he will be getting a copy to the Commission when it is typed. He reported everything is excellent.

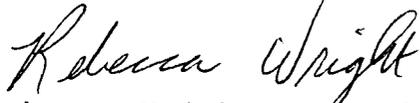
James Spurlin made a motion to buy shrubs for the flagpole. Bobby Creager 2nd the motion. Said motion carried. Becky is to get them from East of Eaden.

There was discussion on Beech Creek and Twin Tunnel tank needing renovation.

Joe Henry is to contact PSC on a meeting for rate increase and treatment plant. Brent Yonts is to see if his associate can represent us with PSC.

Those requesting rooms for the National Rural Water Convention in October were Brent Yonts, James Hill, Bobby Lewis, James Spurlin, Joe Holland, Bobby Creager, and Larry Reno.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman



James Spurlin, Secretary

MINUTES OF THE JUNE 22, 1998 MEETING

The Regular meeting of the Muhlenberg County Water District Commission was opened by Joe Holland, Chairman.

Bobby Creager made a motion to dispense of the reading of the minutes in order to recognize vistor's.

Dora Mercer and Mary Czerwinski were here to check on getting water in the Dunmor area. We explained our line extension policy and are to go and measure in order to give Ms. Czerwinski a price on laying line to her home. Brent Yonts is to check with the state to see if any funds are available to help them on the expense.

Bobby Creager made a motion to approve the minutes of the May 26, 1998 meeting. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve the bills for payment. Joe Holland 2nd the motion. Said motion carried.

There was discussion on the leak adjustment letter from Public Service Commission. It was decided to send a tarriff to Public Service Commission for their leak adjustment but to add that the District has the option of going to customer's residence and inspecting the line that leaked before giving an adjustment. Brent to send for Commissioner signature when finished. It was stated that any Commisisoner may sign the tarriff.

Brent Yonts is to send a letter to Central City Water and request they send the District proper procedures to follow in the event Central City has leak, and we have muddy water as a result.

Joe Henry sent a letter from Public Service Commission stating he and the Commission have an appointment with PSC on June 30, 1998 at 1:30 p.m. eastern daylight time, to meet and discuss a treatment plant and a rate increase to cover the expense of the plant. Brent Yont's new legal associate, Stephanie Ritchie, will represent the District at the conference along with Joe Henry and the three Commissioners.

There was discussion on the audit. Commission was given a copy of audit and were asked if there were any questions. It was decided to publish the audit was available for inspection Monday-Friday from 8-4 at the office. Bobby Lewis stated everything concerning the audit was in order, and the District was financially sound. Brent Yonts is to prepare an article for the paper.

There was discussion on employees having to come in and change the board on Holiday when it falls on a Monday and a new on call crew is needed. It was decided that all 4 employees would be entitled to 1 hour overtime when this scenerio occurs.

The Kentucky Rural Water Association Convention was discussed. It is to be held in Lexington from August 17-19, 1998. Becky is to make reservations for those wanting to attend.

There was discussion on new computer equipment for the year 2000. Becky is to possibly order in January 1999. To discuss further at a later date.

James Spurlin is to get specifications on a dump truck for the District to purchase. Bids are to be advertised in the paper and opened at the next meeting.

Malone Meadows South was discussed. In the absence of the engineer, Joe Henry, no new information was given other than the fact that Todd County Water does not want to supply water for the project, and it is not feasible for Muhlenberg County District to supply it. Further discussion with Joe Henry to decide anything on this.

A letter from Public Service Commission was read concerning the decision they had made on the District charging Muhlenberg County Extension Office the 3" rate even though they never use the amount charged. Public Service ruled that this was reasonable since the District had a tariff with PSC, and also other customers had to pay the amount because of the tariff. No other customer is allowed to pay less than the tariff even though they use less than the minimum usage stated in the rate tariff.

James Spurlin made a motion for the meeting to adjourn. Bobby Creager 2nd the motion. Said motion carried.

Respectfully submitted,

*Rebecca Wright*  
Rebecca Wright, Recording Secretary

*Bobby Creager*  
Joe Holland, Chairman CC

*James Spurlin*  
James Spurlin, Secretary

MINUTES OF JULY 27, 1998

The regular meeting of the Muhlenberg County Water District was opened at 4:00 p.m. by James Spurlin, Acting Chairman. A motion was made by Bobby Creager and 2nd by James Spurlin to dispense with the reading of minutes to recognize visitors. Said motion carried.

Kenny Martin of Sternberg International was present with a bid on a truck. The following bid was received:

Sternberg International.....\$58,400.00

Bobby Creager made a motion to buy the truck. James Spurlin 2nd the motion. Said motion carried.

Joe Henry was present and discussed trying to get a rate increase passed with PSC in the next year for system improvements. Bobby Creager asked that Joe Henry provide us with a list of priority needs for the system and the cost of each. Joe Henry stated we needed to put a tank at Beech Creek and Powderly for system improvement.

There was discussion on William McGehee, who paid for a fire hydrant last year. Joe Henry stated he did not recommend to certify the hydrant because he did not feel it would meet the requirements at all times. James Spurlin made a motion and it was 2nd by Bobby Creager to refund Mr. McGehee the money he paid down on the hydrant. Said motion carried.

Brent Yonts reported that there was no money available on the state level for water for Dora Mercer's friend. He is to send letter on this.

There was discussion on funds available through the Abandoned Mine Lands to help on a treatment plant. Joe Henry stated it has to be used to help people with no water.

There was discussion on South Malone Meadows need for water. Joe Henry stated that Todd can't supply the water, and he suggested to set a master meter to supply water.

Brent Yonts reported that Kelly Ritchie cannot represent us at PSC. Brent recommended that Damon Tally represent the District for a rate increase.

There was discussion on water loss and what measures need to be taken to lower the loss. Joe Henry reported that Pike County uses flow meters throughout the system to detect leaks and lower water loss.

There was discussion on maps for the system from GRW to put in the conference room. Joe Henry is to check on the cost for this.

Bobby Creager made a motion to approve the minutes of June 22, 1998. James Spurlin 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve bills for payment adding Wemhoener bill of \$12,351.05 and G and C bill of \$111.75. James Spurlin 2nd the motion. Said motion carried.

Bobby Creager made a motion that James Hill be voting delegate for the KRWA Convention August 18-19. James Spurlin 2nd the motion. Said motion carried.

There was discussion of jumpers in meters. Brent stated that if pictures were taken and information logged about the situation that it would stand up in court as a public business record for Muhlenberg County Water District. Brent is to prepare letters to send out to people with double hookup and jumpers. We are to send him names and addresses when we detect the problem. Brent is to prepare article on theft of service and flush hydrant color codes for the paper.

There was discussion on purchasing a cradle from Computer Resources that charges handheld devices at night to read the following day. It was decided to continue using batteries since we may go to some type of touch read in the near future.

There was discussion on the National Rural Water Registration, and it was decided that we register on site for the conference.

A leak caused by high pressure at Darren Obenchain's residence was discussed. It was decided that his bill be adjusted to an average bill because of extreme pressure. We have installed a new pressure regulator.

Bobby Creager made a motion to adjourn, and it was 2nd by James Spurlin. Said motion carried and the meeting adjourned at 7:15 p.m.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman



James Spurlin, Secretary

MINUTES OF AUGUST 24, 1998 MEETING

The regular meeting of the Muhlenberg County Water District was called to order by Joe Holland, Chairman.

James Spurlin made a motion to approve the minutes of the July 27, 1998 meeting. Joe Holland 2nd the motion. Said motion carried.

James Spurlin made a motion to approve the bills for payment. Bobby Creager 2nd the motion. Said motion carried.

Brent Yonts had pass-thru-rate increase tarriff to file with PSC for Commissioners to sign. He is to take this to Frankfort Tuesday.

There was discussion on letters to jumper customers and illegal hookups. Brent is to put notice in paper concerning illegal hookups and fire hydrant codes.

There was discussion on changing the meeting date for Joe Henry to be here. It was decided to leave as is.

There was discussion on upgrades for Job Corp and National Guard. It was decided that our engineer, Joe Henry, needs to revise the quotation so that we pay less of the costs for upgrades and Job Corp and National Guard pay more for upgrades. Joe will quote a larger tank as safety measure to keep our system from going dry as a result of their high usage. He will revise quotation for Job Corp and National Guard and send for signatures as soon as possible.

There was discussion on Central City taking Elmer Doss over as a customer. Brent is to send them a letter on this situation.

There was discussion on Damon Talley, attorney, to be used to assist the District with rate increase with PSC since Brent will no longer be able to help us on PSC matters. Brent is to contact him about this matter.

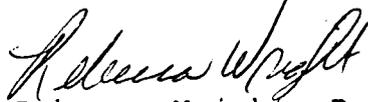
Becky Wright, Office Manager, presented quotations on purchasing a new drive-thru window and repairing the existing window. James Spurlin made a motion to repair the existing window for approximately \$4,100. Bobby Creager 2nd the motion. Said motion carried.

Joe Henry presented a list of capital improvements at this time. There was discussion on the list as to prioritizing the needs. It was decided that Larry, James, and Herb would present a prioritized list at the next meeting.

There was discussion on removing the old Dunmor tank since it is no longer needed. Larry Reno is to remove this tank, and we are to take off the insurance when the removal is complete.

James Spurlin made a motion to adjourn. Motion was 2nd by Bobby Creager. Said motion carried and the meeting adjourned at 6:00 p.m.

Respectfully submitted,



Rebecca Wright, Recording Secretary



CO  
CHAIRMAN

Joe Holland, Chairman



James Spurlin, Secretary

MINUTES OF SEPTEMBER 28, 1998

The regular meeting of the Muhlenberg County Water District was opened by James Spurlin, acting Chairman, in the absence of Joe Holland, Chairman. Bobby Creager made a motion to approve the minutes of the September 28, 1998 meeting. James Spurlin 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve the bills for payment. James Spurlin 2nd the motion. Said motion carried.

There was discussion on leasing a van for the National Rural Water Convention from Friday, October 23, 1998 through Friday, October 30, 1998. It was decided to lease from D and P Auto Sales. Bobby Creager made motion and it was 2nd by James Spurlin. Said motion carried.

There was discussion on computer equipment for the year 2000. It was decided that we would purchase new equipment including new work stations and 2 new printers. Also, we will need a new operating system. The cost should be approximately \$17,000.00. Becky is to order new system and equipment.

James, Herb, and Larry are to set district improvement priorities when we hear from National Guard and Job Corp on the proposal sent to them.

Larry, James, and Herb are to work with Joe Henry on establishing a cost per foot to install waterline for the new line extension policy.

There was discussion on smoking in the office area. It is to be discussed later when Brent Yonts sends us the law concerning smoking in public buildings.

Bobby Creager made a motion to hire Damon Tally to represent the District for rate increase with PSC. James Spurlin 2nd the motion. Said motion carried.

There was discussion on the personnel coming in late and leaving early. It was decided that Brent Yonts look over the by-laws to see if they need to be upgraded since the last time they were reviewed was 1988. Becky to send him a copy.

Bobby Creager made a motion to change the next meeting date to October 20, 1998 since the National Rural Water Convention is the week of the regular meeting. James Spurlin 2nd the motion. Said motion carried.

Bobby Creager made a motion to adjourn. James Spurlin 2nd the motion. Said motion carried.

Respectfully submitted,

*Rebecca Wright*

Rebecca Wright, Recording Secretary

*Joe Holland*

Joe Holland, Chairman

*James Spurlin*

James Spurlin, Secretary

No meeting in October 1998.

MINUTES OF THE NOVEMBER 23, 1998 MEETING

The regular meeting of the Muhlenberg County Water District Commission was opened by the Chairman, Joe Holland at 4:00.

Bobby Creager made a motion to approve minutes of the September and October meeting. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve payment of bills for October and November. Joe Holland 2nd motion. Said motion carried.

Brent reported that there had been no response to the letter sent to Central City on them taking over Elmer Doss as a customer.

Walmart reported that they would do whatever necessary to relieve problem with meter on sprinkler system. Joe Henry and Herb Jackson are to work with them on this.

It was reported that Job Corp and National Guard have not responded on the request for them to help finance their improvements at Nebo.

There was discussion on Lake Malone Development. It was decided to let the contractor of project move on the next step. It was stated that the District does not want to get into Todd County to supply water.

Joe Henry stated that the rate increase to Public Service Commission is to be done according to system improvements needed.

It was reported that no further action taken to date on water treatment plant.

Fire hydrants were discussed and Joe Henry stated not good to certify hydrants because of liability.

There was discussion on system needs. It was reported that tanks need to be inspected and renovated and Powderly pump station needs to be renovated. It was stated that it may be covered in the Industrial Park project.

Patty's truck accident was reported and because there was only minor damage expense, it would not be turned in to the insurance.

Larry Reno is to check with Tommy Woodruff on remodeling the office with new desks, counters, etc.

It was decided that Larry, James, and Herb could prioritize list of system improvements needed after National Guard and Job Corp respond as to whether they will help finance Nebo improvements.

Bobby Creager made a motion to pay hourly employees \$150 for Christmas bonuses, Doris Uzzle, part time employee \$75, and all salaried employees \$250. Joe Holland 2nd the motion. Said motion carried.

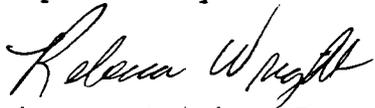
A motion was made by Bobby Creager to hire an employee to fill the position of Patsy Dukes who will be leaving at the end of December 1998. The person to be hired will be decided later. Joe Holland 2nd the motion. Said motion carried.

Joe Holland made a motion to hire Ralph Edwards as a mechanic at \$11.64 an hour and to pay Keith Peterson \$11.64 an hour. Motion 2nd by Bobby Creager. Said motion carried.

James Hill reported that the chlorine equipment is giving some problems and new equipment needs to be purchased. James is to check on this.

Joe Holland made a motion to adjourn at 6:25 p.m. Bobby Creager 2nd the motion. Said motion carried.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman

James Spurlin, Secretary

Co 

## MINUTES OF DECEMBER 28, 1998 MEETING

The regular meeting of the Muhlenberg County Water District was opened by the Chairman, Joe Holland, at 4:00 p.m.

Bobby Creager made a motion to dispense with the reading of the minutes to recognize visitors. Joe Holland 2nd the motion. Said motion carried.

Bob Bourque, Representative of Wooldridge, Inc., was here to discuss us supplying water in Todd County to Malone Meadows South. Brent Yonts is to contact Joe Henry on this matter and respond to their request for the District to supply water to them.

Bobby Creager made a motion to pay bills and to approve two damage bills, one for a storage building and one for a gas meter. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve minutes of the November 23, 1998 meeting. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to take \$100,000 out of Depreciation Fund CD and put in the general checking account on maturity date in January 1999. Joe Holland 2nd the motion. Said motion carried.

There was discussion on an inquiry from PSC on developers having to pay the costs for waterline extensions. Brent is to get with Joe Henry to prepare our response on this. This is to be filed within 45 days of December 18, 1998.

The District received a request from Rock McDonald for a hot tub in treatment of his back injury compensation claim. Brent Yonts is to contact the District's Compensation Carrier for them to represent the District in this claim.

There was discussion on a customer applying for water at a residence where a meter lock was broken to use water illegally. The said customer was required to pay for water used, since the meter had been locked, and the normal reconnect fee and deposit. No further action was to be taken at this time on this matter.

A letter from Central City responding on Elmer Doss being transferred from Muhlenberg County Water to Central City Water was read at this time. It was decided that a letter be sent to them asking them that the District be informed of transfers in advance in the future, and as in past, permission from the utilities be given one another before this takes place.

The budget for 1999 was presented to the Commission at this time. Bobby Creager made a motion for the budget to be approved. Joe Holland 2nd the motion. Said motion carried.

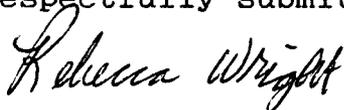
There was discussion on purchasing new trucks. The mileage on each truck is to be reported at the next meeting and further discussion to be had.

It was reported the pressure at Milfred Owens below Twin Tunnel Tank is below 30 lbs. It was decided that an in line booster pump be installed as soon as possible.

There was discussion on 2" meters, and the fact that water can be used through the by-pass and not register on the meter. It was decided that all the 2" meters of the District be kept locked in the future.

Bobby Creager made a motion to adjourn. Joe Holland 2nd the motion. Said motion carried and the meeting adjourned at 5:40 p.m.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman

Bobby Creager, Treasurer



MINUTES OF JANUARY 29, 1999

The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman, at 4:00 p.m.

Bobby Creager made a motion to approve the minutes of the December 28, 1998 meeting. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve bills for payment. Joe Holland 2nd the motion. Said motion carried.

Bill Hill, developer was here to discuss Lake Malone Meadows South Development. There was discussion on the best way to respond to their request for us to supply water for this development. Bobby Creager and Joe Holland went on record as opposed to mingling water systems due to potential problems that could result due to combining the systems. It was decided to come up with a response to PSC on why we are not wanting to go into Todd County with water. Joe Henry will send new draft to Commission, when he completes, for review and approval.

There was discussion on the Walmart vault at the new center. Joe Henry reported that Walmart would repair the vault at their expense. The District is to send a copy of the invoice of GRW for their charges on this and Ms. Vantor will reimburse the district for these expenses.

Joe Henry reported on the response of National Guard on helping us upgrade Nebo. He reported he felt they would help financially on the upgrade. He reported that Job Corp was contacted and Ralph Hill of Job Corp stated they would not approve anything on upgrading the system to supply them more water.

There was discussion on tank inspection. Joe Henry reported that Beech Creek tank is to be inspected. CT Services to do inspection of Beech Creek and do the work needed. They will send a proposal on this for District to sign and return.

Joe Henry discussed the Consumer Confidence report. It will have to be mailed out to our customers by October 1, 1999. The report is to be sent to Drakesboro and TVA by April 19, 1999. Central City will send to us by April 19. Next year the report will have to be sent out in July.

There was discussion on Central City needing to upgrade their system to meet our water supply demand. They are currently upgrading at the cemetery for supplying the south end of the county. Central City Water may want us to help with their upgrades for their system by a rate increase in 1999. If we do improvements at Powderly for more capacity, Central City may not be able to supply our demands. Joe Henry is to work with Central City on what we need and what it will take for them to supply our demand for upgrades. Many of our pumps are pumping more than normal demand. Joe Henry stated that when they are pumping 16-18 hours a day, upgrades need to be done to get pump time down to 12 hours a day.

Bobby Creager made a motion to approve holidays for 1999. Joe Holland 2nd the motion. Said motion carried. Schedule made a part of minutes for future reference.

It was reported that AIK, our Workman's Compensation Carrier, has agreed to pay Rock McDonald 1/2 of his claim for a hot tub for treatment of his back injury.

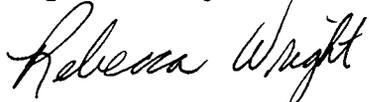
Bobby Creager made a motion to purchase a pump to use at Twin Tunnel for the pressure problem in the area. Joe Holland 2nd the motion. Said motion carried.

There was discussion on trucks that need to be purchased. Bobby Creager made a motion to bid a truck for Larry Reno and a truck to replace the 1995 Chevy S10. Ralph Edwards is to take Larry Reno's to drive and the Chevy S10 is to be traded. Joe Holland 2nd the motion. Said motion carried. The bids will be opened at the February 22, 1999 meeting.

There was discussion on absenteeism and coming in late and leaving early. It was decided to fill out late and leaving early slips before employees can go to work. The steps to correct the problem are to be progressive and to be discussed at length by the Commission.

Bobby Creager made a motion to adjourn. Joe Holland 2nd the motion. Said motion carried and the meeting adjourned at 6:45 p.m.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman



Bobby Creager, Treasurer

MINUTES OF FEBRUARY 22, 1999

The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman, at 4:00 p.m.

Bobby Creager made a motion to approve the minutes of the January 29, 1999 meeting. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to hire Tommy Woodruff Construction to do office remodeling. Joe Holland 2nd the motion. Said motion carried.

The bids for trucks were opened at this time. The following bids were submitted:

Lester Ford

1999 Dodge Dakota	\$13,704.00
Trade In	3,800.00
	<hr/>
	\$ 9,904.00
1999 Dodge 1/2 ton 318 Engine	21,500.00
Trade In	- 3,800.00
	<hr/>
	17,700.00
1999 Dodge 1/2 ton 360 Engine	21,909.00
Trade In	3,800.00
	<hr/>
	18,109.00
Ford Ranger V-6	13,193.00
Trade In	3,800.00
	<hr/>
	9,393.00
Ford 5.4 or 4.6	21,500.00
Trade In	3,800.00
	<hr/>
	17,700.00

Bobby Creager made a motion to purchase the Ford 4.6 and the Ford Ranger V6 and to trade in the 1995 Chevy S10 on the Ford Ranger. Joe Holland 2nd the motion. Said motion carried.

The was discussion on the backhoe warranty. It was decided to let Ralph Edwards maintain the backhoe and not to purchase a warranty.

Brent Yonts responded to Developer Service Charge. Damon Talley, Kentucky Rural Water attorney, recommended to take the position of Kentucky Rural Water in responding to the PSC inquiry. Brent is to prepare a response to this after Kentucky Rural Water sends out what their position is on the Service Charge.

There was discussion on South Lake Malone Meadows response to PSC. It was decided to sign letter and send to PSC. Brent to send a copy to attorney for Lake Malone Meadows and Todd County.

Larry discussed Weir Pump Station at Steven Meadows needing tile. It was decided that the District would pay 1/5 of the cost for the tile which would be \$300.00.

There was discussion on purchasing a drive thru window from Mosler. The cost will be \$7,915.00. Bobby Creager made a motion to purchase the window. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to purchase Office Professional software from Computer Resources for \$890.00. Joe Holland 2nd the motion. Said motion carried.

There was discussion on cabinets for the office. Bobby Creager made a motion to order cabinets for Becky's office for \$3,632.00. Joe Holland 2nd the motion. Said motion carried. Becky is to order these from Cates of Russelville.

There was discussion on flooring for the office. Becky is to get prices on vinyl and ceramic tile for the entire building.

It was decided to paint all the walls inside the building. Tommy Woodruff Construction are to do this.

It was decided to install a handicap ramp on the front of the building when the masonry work on drive thru is being done.

There was discussion on personnel policy on a absenteeism. It was discussed to give 3 days paid bereavement and no sick days be used for this. Brent Yonts is to prepare a policy for the District and bring it back to the Commission for study and evaluation.

Becky Wright is to reserve 4 rooms for the Kentucky Rural Water Management Conference in Bowling Green on April 14 and 15 th. James Hill, Larry Reno, Joe Holland, and Becky Wright are to attend.

Bobby Creager made a motion for the meeting to adjourn. Joe Holland 2nd the motion. Said motion carried. Meeting adjourned at 6:30 p.m.

Resepectfully submitted,

*Rebecca Wright*

Rebecca Wright, Recording Secretary

*Joe Holland*

Joe Holland, Chairman

*Bobby Creager*

Bobby Creager, Treasurer

MINUTES OF THE MARCH 22, 1999 MEETING

The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman at 4:00 p.m.

Bobby Creager made a motion to approve the minutes of the February 22, 1999 meeting. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve the bills for payment. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to approve buying custom built cabinets from Cates Lumber for the front office and Becky's office. The cost of these cabinets will be \$14,079.90. Joe Holland 2nd the motion. Said motion carried.

The tile for the office is to be bid out and opened on March 24, 1999.

Bobby Creager made a motion to transfer money from the Depreciation Account, Construction Account, and the Depreciation CD to the general account. The amount will total approximately \$90,000.00. This is to pay for remodeling and Beech Creek Tank renovation. Joe Holland 2nd the motion. Said motion carried.

Brent Yonts reported that there has been no response on Lake Malone Meadows South letter sent.

Brent Yonts also reported that there was no response on Developers Service Charge which was sent March 18, 1999.

Personnell absenteeism policy discussed to be studied and evaluated by Larry, James, Herb, and Becky and brought back to the next meeting.

Becky Wright, Larry Reno, Joe Holland, and James Hill are to go to Bowling Green to Kentucky Rural Water Management Seminar. Becky is to get rooms for 13th and 14th for everyone and register everyone in advance except Joe Holland, who will register on site.

Bobby Creager made a motion to recess to reconvene on Wednesday, March 24, 1999 to open tile bids for office. Joe Holland 2nd the motion. Said motion carried.

Respectfully submitted,

*Rebecca Wright*  
Rebecca Wright, Recording Secretary

*Joe Holland*  
Joe Holland, Chairman

Bobby Creager, Treasurer

*Bobby Creager*

MINUTES MARCH 24, 1999 MEETING

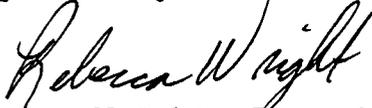
The Muhlenberg County Water District Commission reconvened on March 24, 1999 to open bids on tile for the office. The bids were as follows:

Troy Woodruff installing vinyl tile .....\$10,500.00  
Cooper Carpet installing vinyl tile..... 4,194.28

Troy Woodruff installing ceramic tile..... 23,490.00  
Cooper Carpet installing cermaic tile..... 15,839.31

Bobby Creager made a motion to have Cooper Carpet install ceramic tile on the entire office building for \$15,839.31. Joe Holland 2nd the motion. Said motion carried.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman

Bobby Creager, Treasurer



## MINUTES OF THE APRIL 26, 1999 MEETING

The regular meeting of the Muhlenberg County Water District was opened at 4:00 by Joe Holland, Chairman.

Bobby Creager made a motion to approve the minutes of the March 22, 1999 meeting. Joe Holland 2nd the motion. Said motion carried.

Bobby Creager made a motion to pay bills submitted. Joe Holland 2nd the motion. Said motion carried.

The personell policy was discussed and decided to discuss further at the next meeting.

Bobby Creager made a motion to pay Tommy Woodruff 15% of the total cost of the remodeling of the office. This is the standard amount that Tommy gets for remodeling. This includes the cost for material from Malone Lumber Company, drive-thru window, tile floor, door and window, front porch, labor paid to Woodruff Construction, office desks and cabinets, and masonry work. Joe Holland 2nd the motion. Said motion carried.

Becky Wright submitted a special district report from Gaylen Spurlin. Brent is to check on definition of special district to see if the District is required to submit the report. In the past we have not submitted the report because Bobby Lewis said we were not required to do it.

There was discussion on the health insurance rates increasing. Becky Wright submitted alternate plans for insurance. It was decided to keep the current insurance plan and to discuss other options at a later time.

There was discussion on a rate increase to the Public Service Commission. Brent is to contact Damon Talley, attorney, to represent the District before PSC since Brent can no longer do that. Mr. Talley will possibly be at the next meeting.

Beech Creek tank and pump station was discussed at this time. The tank is in very poor condition according to the inspection report of CT services. Becky is to contact Joe Henry to assist her in getting on the priority list of the Safe Drinking Water Revolving Loan Fund. Low interest rates are available through this fund from the state. The approximate cost of the project will be \$750,000.00

Bobby Creager made a motion to adjourn. Joe Holland  
2nd the motion. Said motion carried and the meeting adjourned  
at 5:00 p.m.

Respectfully submitted,

*Rebecca Wright*  
Rebecca Wright, Recording Secretary

*Joe Holland*  
Joe Holland, Chairman

Bobby Creager, Treasurer

*Bobby Creager*

## MINUTES OF THE MAY 21, 1999 MEETING

The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman, at 4:00 p.m.

Bobby Creager made a motion to approve the minutes. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager made a motion to approve the bills for payment. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on the "Special District" report for Fiscal Court. Bobby Lewis is to do this report and put a condensed version in the paper each year.

There was discussion on the National Rural Water Convention to be held in New Mexico October 18-21, 1999. It was decided that seven room reservations be made for these dates.

The personnell policy was discussed at this time. It was decided that the policy be retyped with additional comments wanted and delete items not needed. This is to be discussed at the next meeting.

Damon Talley was present to discuss representing the District with Public Service Commission for a rate increase. Bobby Creager made a motion to hire Damon Talley at \$125 an hour and Mr. Talley is to start the proceeding as soon as possible. Joe Holland 2<sup>nd</sup> the motion. Said motion carried

There was discussion on the Walmart fire protection leak detector meter. It has been reported that usage is showing up on this meter. Walmart has been asked to check this out to see where water is going and to date nothing has been done. Brent Yonts is to send a letter on leak repair and a bill for water usage.

Bobby Creager made a motion that the meeting adjourn and Joe Holland 2<sup>nd</sup>  
the motion. Said motion carried and the meeting adjourned at 6:15 p.m.

Respectfully submitted,

*Rebecca Wright*  
Rebecca Wright, Recording Secretary

*Joe Holland*  
Joe Holland, Chairman

James Spurlin, Secretary

*Bobby Creager*

## MINUTES OF THE JUNE 28, 1999 MEETING

The regular meeting of the Muhlenberg County Water District was opened at 4:00 by Joe Holland, Chairman.

Bobby Creager made a motion to approve minutes of the May 21, 1999 meeting. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager made a motion to pay the bills including bill to Blue Cross, Blue Shield bill for \$9,580.46 for employee health insurance. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on the Kentucky Rural Water Convention to be held in Bowling Green August 30- September 1, 1999. It was decided that Tommy Woodruff would be the voting delegate for the District and that Tommy, James Hill, Carl Jackson, and Becky Wright will be attending. Reservations are to be made for these employees.

Bobby Creager made a motion for employees who choose to be able to participate in the Kentucky Deferred Compensation Fund. The employees will have funds deducted from their checks to participate. Joe Holland and Bobby Creager signed necessary papers for us to participate in this program. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager, Joe Holland, and Brent Yonts went into executive session and discussed personnel matters. Upon returning from the session Bobby Creager made a motion to come out of session, and Joe Holland 2<sup>nd</sup> the motion. Said motion carried. Brent Yonts read a report regarding personnel matters discussed. The following is a summary of the report to be made a part of the minutes along with a grievance report presented to Bobby Creager and Joe Holland on April 15, 1999 from the Muhlenberg County Water District shop employees:

On April 15, 1999 the Commissioners, Bobby Creager and Joe Holland, met with the employees concerning complaints about Larry Reno, Superintendent, and his management procedures and personnel grievances.

On May 21, 1999, said Commission met with Larry Reno. The complaints were identified and are on the list attached hereto. These were thoroughly discussed with Larry Reno over a period of several hours. Larry Reno resigned.

The Commissioners met again with Larry Reno on June 13, 1999 at length after he withdrew his resignation. After much discussion, the Commission advised Larry Reno that he was removed as Superintendent effective immediately, and that he could continue to work as a regular laborer of the district. Larry Reno stated he would take his vacation time which was to end approximately July 7, 1999. He would return as regular labor worker at that time if he desired to continue employment with the district.

At the end of this reading James Spurlin, by way of telephone, made the motion and Bobby Creager 2<sup>nd</sup> the motion, that due to the report which was previously read by Brent, Larry Reno's position as Superintendent be discontinued effective June 13, 1999. Said motion carried. Larry Reno's vacation and sick days are to be paid through July 7 and his insurance through the month of July.

James Spurlin made a motion to hire Tommy Woodruff as the new Superintendent effective June 15, 1999, and to be same salary as previous Superintendent. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

Personnel policy was discussed at this time. It was decided to look at the policy further at the next meeting. Herb, James, Becky, and Tommy are to discuss the policy further.

James Hill reported on schooling for the Commissioners. They will be getting information packets soon.

There was discussion on Jonathan Porter wanting to lay his own line. It was decided that he could lay own line and he would be responsible to maintain for one year and then the District will take over. He will be laying approximately 4,000 feet and if his own engineer inspects the line, plans must be given to our engineer for review and approval.

There was discussion on Walmart's leak detector meter usage. It was decided that we would bill them for this usage at the regular  $\frac{3}{4}$  " rate.

Bobby Creager made a motion to purchase blinds for Tommy Woodruff's office from Country Town Fabric for \$291.82. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on the Senior Citizens building water services. The total estimate for the installation of line, 2" meter, flush hydrant, manhole and valve is approximately \$12,000.00. Bobby Creager and Tommy Woodruff are to discuss this with Judge Kirtley concerning who will be responsible for the cost of the services.

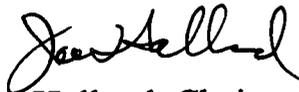
Tommy Woodruff is to work on internal control methods such as employees purchasing material and obtaining purchase orders, etc.

It was decided that software is to be purchased for the lap top to be integrated with the telemetry system.

Kentucky Rural Water is to be contacted to assist us in reducing our water loss in the system.

Bobby Creager made a motion to adjourn. Joe Holland 2<sup>nd</sup> the motion. Said motion carried. Meeting adjourned at 6:30.

Respectfully submitted,



Rebecca Wright, Recording Sec. | Joe Holland, Chairman | Bobby Creager, Treasurer



**MINUTES OF THE JULY 26, 1999 MEETING**

The regular meeting of the Muhlenberg County Water District was opened by Bobby Creager, acting chairman at 4:00 p.m.

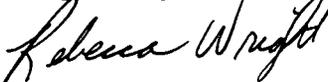
James Spurlin, per telephone, made a motion to approve the minutes of the June 28, 1999 meeting. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

James Spurlin made a motion to approve the bills for payment. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on taking money out of CD to put in general account. Bobby Creager is to take excess funds over \$120,000.00 from the CD and put in the general account.

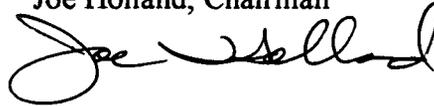
James Spurlin made a motion to adjourn. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

Respectfully submitted,

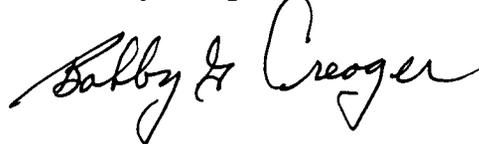


Rebecca Wright, Recording Secretary

Joe Holland, Chairman



Bobby Creager, Treasurer



**MINUTES OF THE AUGUST 23,1999 MEETING**

The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman, at 4:00 P.M.

Bobby Creager made a motion to approve the minutes of the July 26, 1999 meeting. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on bills to be paid. D & K Meter bill was added to bills presented for payment. Bobby Creager made a motion to pay bills. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

Truck Bids were opened at this time. The following truck bids were received on the 1969 Dump Truck:

David Green.....	\$2,551.00
Gerald Evitts.....	1,157.00
Gerald Evitts.....	855.00
Keith Peterson.....	555.55
Roger English.....	1,500.00

Bobby Creager made a motion to accept the high bid from David Green on the truck. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

Bids on 3 piles of scrap metal, fencing, etc. were opened at this time. The bids were as follows:

Ralph Basham.....	46.00 Pile #3
Rockey McDonald.....	51.00 Pile #2
Keith Peterson.....	22.23 Pile #2
Herb Jackson.....	77.57 each Pile #1, 2, 3

Bobby Creager made a motion to accept high bids from Herb Jackson on the above items. Joe Holland 2<sup>nd</sup> the motion. Said motion carried.

The money from these bids, \$ 2,783.71 is to be used for tools for maintenance of the District.

Joe Henry of GRW Engineering was here to discuss system improvements that are needed. Joe reported that he felt that Beech Creek Tank would be the priority need for the district. Also, the pump station at Powderly needs to be upgraded and several small distribution lines upgraded in the system. Joe will prepare a priority list of improvements for the Commission's approval to send to Damon Talley to

include in the rate increase request to Public Service Commisison. He will also check into possible funding available.

Joe reported that National Guard was wanting to do some construction and had contacted him concerning a letter from us approving and stating that we could supply them the water they need. Joe will review their plans and specifications and will advise us as to whether we can supply them the amount needed without any upgrading to our current system.

There was discussion on a letter from Central City concerning their increased cost of water treatment. They sent this as a follow-up of their letter sent May 31, 1999 on a rate increase to be imposed in September 1999. Brent Yonts stated that the District would need to apply for a flow-thru increase as soon as Central City informs us of the new rates. Brent stated that the rate increase request that Damon Talley is preparing will take 10-12 months to be approved, therefore; a flow-thru rate will need to be requested as soon as possible.

There was discussion on water loss of the District. Joe Henry discussed dividing the area served into pressure zones and coding the customers provided by each zone in the computer. By using master meters and flow meters , we would be able to determine where the loss is occurring in the system.

Tommy Woodruff discussed developers requesting to lay their own line in subdivisions. He stated that master meters need to be installed on the subdivision lines for one year and compared to customers usage in the subdivision to determine how much water is lost because of leaks. At the end of the year , the developer is responsible for the water loss. It was discussed that Woodbridge Developer at North Malone Meadows had blowouts in the lines. Becky reported that they had been billed for water loss and have paid. By installing meters on subdivisions better records could be kept as to how much was lost.

There was discussion on water theft of district customers through jumpers, illegal hook-ups, tampering with meters, hydrants, and flush valves. Several different incidents were discussed, and it was decided that anyone breaking locks on meters or using jumpers to receive water without paying would have their service taken out. Brent Yonts is to prepare an article to run in the paper concerning water theft and consequences of same.

Bobby Lewis gave a report concerning the audit for 1998. He stated that there was significant loss as far as cash flow is concerned. He stated that expenses need to be decreased and income increased through a rate increase and water loss reduction. Commission advised Becky Wright to have financial report printed in the newspaper.

There was discussion on the Walmart sprinkler system leak. It was reported that the leak they have on their sprinkler system was corrected in May 99 and in the

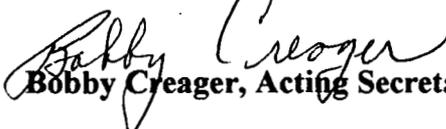
June minutes Becky Wright was instructed to send them a bill for usage through their leak detector at  $\frac{3}{4}$  inch rate. Readings taken on the leak detector meter in August 99 showed the leak had started again. Usage on the leak detector meter is to be billed at 5 times gallons shown since it is a  $\frac{3}{4}$  " meter on a 10" line as reported by Tommy Woodruff, Superintendent.

Bobby Creager made a motion for the meeting to adjourn. Joe Holland 2<sup>nd</sup> the motion . Said motion carried and the meeting adjourned at 6:30. The next regular meeting will be September 27, 1999.

Respectfully submitted,

  
Rebecca Wright, Recording Secretary

  
Joe Holland, Chairman

  
Bobby Creager, Acting Secretary

## **MINUTES OF THE SEPTEMBER 27, 1999 MEETING**

**The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman. Joe Holland asked for a moment of silence in memory of James Spurlin. James served as Commissioner of the District for the last fifteen years. He will be missed by all. Joe welcomed newly appointed Commissioner, Billy Steele. Billy was appointed secretary of the Commission.**

**Bobby Creager made a motion to approve the minutes of the August 23, 1999 meeting. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion to approve payment of the bills for the month. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**There was discussion on the rate increase. Brent Yonts reported that Damon Talley is 70% complete with the study. Joe Henry has sent letter on improvements to incorporate on rate increase. The improvements will cost \$1,388,820.00.**

**Central City Municipal Water and Sewer has sent a letter stating they will not be pursuing a rate increase at this time.**

**There was discussion on the system development charge. Brent reported that the District has a line extension tarriff and the development charge does not apply to us.**

**There was discussion on the tap fee the District is charging at the present time for meters. It was decided that it needs to be increased. Brent is to get paperwork for increase on tap fees.**

**Workman's Compensation claims were discussed at this time. It was reported that a representative from KARE came to talk to Tommy and Becky concerning claims of the District. He advised us to turn all claims in but to turn small claims in for reporting purposes only and not for payment. The Commission advised us to continue turning all claims in for payment.**

**There was discussion on uniforms being worn by the employees. It was decided that having uniforms is optional; however, once the employee chooses to keep uniforms, they must be worn every day.**

**There was discussion on needing people to work after hours for emergency work. It was decided that the two on call people would be expected to work and volunteers would be asked. If no one volunteers, then the workers are required to work in on call list order. The on call list will be kept posted.**

The insurance on tank at Graham was discussed. We are still carrying Insurance on the tank and the land belongs to the county. Brent Yonts took the deed file on Graham and he is to determine who is responsible for the tank.

Bobby Creager made a motion to adjourn. Billy Steele 2<sup>nd</sup> the motion. Said motion carried and the meeting adjourned.

Respectfully submitted,

  
Rebecca Wright, Recording Secretary

  
Joe Holland, Chairman

  
Billy Steele, Secretary

## **MINUTES OF THE OCTOBER 25, 1999 MEETING**

**The regular meeting of the Muhlenberg County Water District was called to order by Joe Holland, Chairman.**

**Bobby Creager made a motion to approve minutes of the September 27, 1999 meeting. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion to approve the bills for payment. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**There was discussion on taking the insurance off the Graham tank. Brent Yonts reported that the county owns the tank. Brent Yonts is to send a letter to Judge Kirtley informing them that the county owns the land and the tank. We will take the insurance off the tank when the county is aware of their liability.**

**There was discussion on Workman's Compensation recommendations that were sent by Kare for the District to review and respond. It was decided that we would not respond to the inquiry and possibly check on Kentucky Rural Water Workman's Compensation.**

**There was discussion on personnel policy letter from Brent Yonts. It was decided to wait on developing a policy.**

**There was discussion on the rate increase. Bobby Creager reported his findings at the National Rural Water Convention that rate increase can be reduced to PSC involvement only. Brent is to contact Damon Talley and inform him of the simplicity of the new method.**

**The annual Christmas Party was discussed. The tentative date was set for December 4, 1999. Becky Wright is to check with Charlie's Steakhouse at Fort Campbell, Owensboro Briar Patch, or Owensboro Moonlight Bar-B-Q.**

**Stewart Wade's leak was discussed at this time. It was decided that the leak was his responsibility because we installed the connection to his meter as a courtesy ;however , because the connection was froze up in our meter and he could not replace the part, we will only charge ½ of the leak bill to Mr. Wade. This is not to set a precedence in the future.**

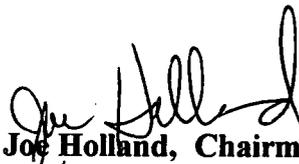
**Sprinkler system flat rate was discussed. Brent is to apply for tarriff on sprinkler system flat rate.**

**Bobby Creager made a motion to adjourn. Billy Steele 2<sup>nd</sup> the motion. Said motion carried. Meeting adjourned. Next regular meeting will be Monday, November 22, 1999 at 4:00 p.m.**

**Respectfully submitted,**



**Rebecca Wright, Recording Secretary**



**Joe Holland, Chairman**



**Billy Steele, Secretary**

## MINUTES OF THE NOVEMBER 22, 1999 MEETING

The regular meeting of the Muhlenberg County Water District was called to order by Joe Holland, Chairman.

Bobby Creager made a motion to approve the minutes of the October 25, 1999 meeting. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager made a motion to approve bills for payment. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on applying for a tariff from Public Service Commission that all trailer parks have a separate meter for each trailer. The proposed tariff was read by Brent Yonts . Bobby Creager made a motion to approve said tariff for submittal to PSC and Billy Steele 2<sup>nd</sup> the motion . Said motion carried. Brent will send for approval and Becky Wright sent notice of submittal to the paper for publishing in the November 24 and Dec 1 papers.

Bobby Creager made a motion to file a tariff with PSC to increase the tap fees on all sizes of water meters and a tariff on flat rate for a sprinkler system. The current charges for meters are not adequate to cover the District's cost involved in installing them. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

Brent Yonts reported that Damon Talley was almost complete with the rate increase analysis to send to Public Service Commission. Brent reported that Districts with \$1,000,000.00 or more in revenue had to file for rate increases as before; however, Damon Talley reported that the District may not be required to have a hearing.

There was discussion on the Bruce Tucker situation. It was reported that he was illegally bypassing his meter to receive water at his trailer park without paying for the services. Tommy Woodruff, Superintendent, is to take readings that have been gotten by the

**District since the usage is being metered and usage he has been charged for several years before theft of services was discovered. The difference is to be billed to him for the length of time that the usage seemed to have decreased drastically. Tommy is to take the information to Darris Russell, County Attorney, for prosecution.**

**Becky Wright was instructed to take Graham tank off our insurance since Brent Yonts had sent a letter to Fiscal Court informing them that they own the tank now. Becky is to check with Judge Kirtley's office to see if they have added it to their insurance before taking it off.**

**After discussion on Workman 's Compensation insurance, it was decided to try and get a price from Kentucky Rural Water for coverage and report findings at the next meeting.**

**There was discussion on low pressure at Beech Creek at Donnie McDonald's new house. It was decided that the pressure is below the legal pressure required by law ,and that an in line pump should be installed or a loop made in the line which is dead end. Tommy Woodruff is to determine which method to correct the problem would be best.**

**All the Commissioners signed cards from Old National Bank to add Billy Steele to the check signing authority list at the bank.**

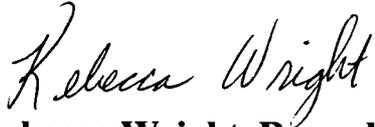
**There was discussion on putting a letter to the Editor of the Greenville Leader in the paper concerning the Consumer Confidence Report. Becky was instructed to send the letter to the paper.**

**Billy Steele made a motion that the District match employee donation made for the needy children in the county for Christmas. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion that the December meeting be Monday, December 20, 1999 at 4:00 p.m. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

Motion to adjourn by Bobby Creager. Billy Steele 2<sup>nd</sup> the motion. Said motion carried and the meeting adjourned at 5:30 p.m.

Respectfully submitted,



**Rebecca Wright, Recording Secretary**



**Joe Holland, Chairman**



**Billy Steele, Secretary**

## **MINUTES OF THE DECEMBER 20, 1999 MEETING**

**The regular meeting of the Muhlenberg County Water District was called to order by Joe Holland, Chairman.**

**Bobby Creager made a motion to approve the minutes of the November 22, 1999 meeting. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion to approve bills for payment. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**There was discussion on the cost of the District's existing insurance. Billy Steele is to talk to Bill Greenwood concerning the amount paid for insurance. There was discussion on bidding insurance. It was decided that the insurance would be bid out, announcement put in the paper, and bids to be opened at the January meeting, with a right to reject any and all bids.**

**Patricia Hancock was present to discuss her eye problem. After much discussion on Patricia's problem, she reported she would not be safe at the present time for herself or the company to be driving. The Commission went into executive Session to discuss personnel matters and Patricia's condition. After returning, Joe Holland, Chairman asked Patricia Hancock to get a statement from her doctor saying that she was able to adequately perform her duties without any restrictions concerning her eyes including driving and reading meters.**

**There was discussion on rate increase tariff for tap fees. Brent Yonts is to put in paper the intent to request increase. The District will be filing for a flat rate on a sprinkler system also.**

**Tommy Woodruff reported that Darris Russell has information on Bruce Tucker prosecution for water theft. He will be filing after first of the year.**

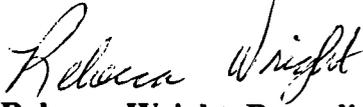
**There was discussion on the Governor's appropriation for money for Treatment Plant.**

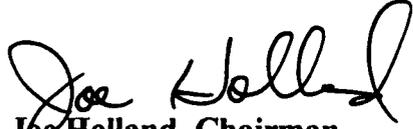
**Bobby Creager made a motion to approve the budget for Farmer' Home Administration. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion to approve Christmas bonuses for 1999 to be the same as they were in 1998. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion to adjourn. Billy Steele 2<sup>nd</sup> the motion. Said motion carried. The meeting adjourned at 5:45 p.m.**

**Respectfully submitted,**

  
**Rebecca Wright, Recording Secretary**

  
**Joe Holland, Chairman**

  
**Billy Steele, Secretary**

## **MINUTES OF THE JANUARY 24, 2000 MEETING**

**The regular meeting of the Muhlenberg County Water District was opened by Joe Holland, Chairman at 4:00.**

**There were several visitors present to discuss the increase of tap on fees on new meters and other items. The list of items is attached to be made a part of the minutes for future reference. Judge Rodney Kirtley read the items in question on the list as the Commission and representatives of the District tried to answer the questions from the visitors concerning the items.**

**The question was asked why the rate increase was placed in the paper only once instead of the required 3 times, and why it was effective January 1, 2000 when Public Service had not approved the increase as of yet. Response was given that the District was advised by their attorney to make the increase effective January 1, 2000 and if Public Service does not approve, money will be refunded for any customer charged more than approved. Damon Talley stated that it was very unlikely that Public Service Commission would make the increase retro-active back to January 1, 2000. Damon Talley's response to the question of why it was only advertised in the paper one time was that it was a one time charge and non re-occurring , unlike a water rate increase which is required to be advertised three times before it becomes effective. Damon Talley is to check to be sure on the Public Service Commission rule on the number of times required to publish before tap fees are made effective.**

**Billy Steele made a motion to postpone the tap fee increase effective date until March 1, 2000 and refund anyone who has already paid the new rate as soon as possible. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

After much discussion concerning the proposed increase for tap fee of the District, the cost justification, which was sent to Public Service Commission for approval, was presented. Many questions were raised concerning the time and equipment stated in the report. It was suggested by some of the visitors that the District look into bidding meters being installed to outside contractors in order to reduce the cost of installing and maintaining equipment.

There was further discussion concerning lines being laid by contractors rather than the District laying them. The question was asked why an employee of the District has to be present when lines are being laid by the contractor and why the District charges \$50 an hour for the employee. It was stated that the District needed an employee on site to inspect the laying of the line; however, the cost will be reviewed and determined as to what it should be. Questions were asked why the District went from \$2.50/foot to \$3.50/foot to install its water line. It was stated that many contractors will lay line for \$2.50/foot; therefore, if the District is operating as non profit, they should be able to beat or at least match the contractor's price. It was stated that the contractor would only be responsible for the maintenance of the line for one year and may not be as concerned about using inferior material and time saving methods for profit; whereas, the District will be responsible for the line indefinitely after the first year.

The question was asked why customers must pay hook-up fee at the water office rather than add fee onto the water bill. It was stated that there had been problems in the past of not collecting fees up front and getting proper paperwork done before service is installed. Becky Wright responded that each customer is treated the same in all respects when applying for new service, all must pay in advance and have paperwork in advance before service is connected to prevent discrimination of anyone and problems in collecting the fees.

After a very lengthy discussion concerning the tap fee rate increase, laying of water lines, installing meters, and various other areas of concern, it was decided it would be best to meet with five representatives of the concerned parties for discussion and possible solutions to each area of concern. This meeting was set for Monday, January 31, 2000, at 5:00 at the office conference room.

**Billy Steele made a motion to approve the minutes of the December meeting. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion to approve payment of bills. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**It was reported that the tariff for all trailer parks getting separate meters for each trailer has been approved by Public Service Commission. Becky is to send Bruce Tucker and Billy Jarvis a letter to come into the office to discuss with the Superintendent about meters that need to be installed to be in compliance with the tariff. Also, the letter is to inform them of our proposed rate increase on the tap fee in order for them to get in compliance before March 1, 2000 deadline.**

**There was discussion on bidding out the insurance of the District. It was reported that Bill Greenwood is to send booklet on cost justification of our current insurance for us to review to determine if we are comparing apples to apples on insurance quotes. Bill is to come to the February meeting to discuss getting our package through Jim Coulter of Insurers of Kentucky at a cheaper association rate.**

**Bobby Creager made a motion to approve the holidays for 2000. Billy Steele 2<sup>nd</sup> the motion. Said motion carried. The schedule is made a part of the minutes for future reference.**

**There was discussion on the worker's compensation report to be sent back to KARE, our workman's compensation insurance company. It was stated that all items were reported in compliance except the District developing a light duty policy. The District does not intend to develop a light duty policy at this time. Becky is to report not applicable on the response to this recommendation on the report.**

**Billy Steele made a motion that Patricia Hancock is to be working in the office and Rita Holland is to be working in the shop in meter and parts inventory. Rita is to be paid \$10.64 an hour and Patty is to be paid \$8.70 an hour effective January 10, 2000. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Billy Steele made a motion to adjourn. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Respectfully submitted,**

**Rebecca Wright, Recording Secretary**

**Joe Holland, Chairman**

**Billy Steele, Secretary**

## MINUTES OF THE JANUARY 28 , 2000 MEETING

The meeting of the representatives for discussion on the tap fee rate increase, line inspection fee, and line laying was opened by Joe Holland, Chairman at 5:00.

Harold Wester, Ford Stinson, Jonathan Porter, Paul E. Mallory, Kerry Young, William Hill, and Hershel Knight were present to discuss the issues of concern. Brent Yonts and Damon Talley, attorneys of the District, Joe Henry, engineer of the District, and Judge Rodney Kirtley were also present.

Brent Yonts responded to the question of why the tap fee rate increase notice was run in the paper one time. He said that he instructed the District to do this. He stated the rule has been changed to requiring the notice to be run three times and the District will do so in the future.

There was discussion on the District requiring an employee to be present on a line laid by an outside contractor and the cost for this employee. There was much discussion on the length of time the inspector needs to be on the job. Bill Hill, engineer, said an inspector from the District only needed to be on the job after the pipe is laid. The trench would be left open for the inspection of the completed job. The engineer on the job would be liable to certify the job has been done to specifications and requirements of the District. Damon Talley, attorney for the District, stated that the inspector from the District needs to be on the job while the lines are being laid since the contractor will only be responsible for the line one year, and the District will be responsible indefinitely after the first year. Damon stated some contractors may be more interested in profit than the line holding up in the future. The cost for the inspector was discussed. It was suggested that the District charge per 1,000 feet of line. The District will evaluate the time needed for inspection and the amount to charge for said inspection.

**Jonathan Porter asked if the District had a subdivision agreement for developers to sign stating that the District will take over in one year. Brent Yonts reported that he would draw up an agreement, and the District and Jonathan would sign for Deer Park Subdivision in Beechmont.**

**There was discussion on pre-qualification requirements for contractors. This could consist of having a list of qualified contractors who have experience in laying water line. Some of the representatives objected to this requirement because some good contractors who may not have the experience would not be eligible to lay the lines.**

**The District stated their position of needing some type of assurance that the water line would hold up in the future. Joe Henry mentioned that the District could require the contractor to be bonded until the one year liability period was complete. Possibly 10% of the total cost of the job could be withheld for one year for insurance of the line. It was stated that the District had problems with the line at Malone Meadows being faulty and not being able to get anyone to stand good for it. Bill Hill, engineer, said the District should look to the engineer who certified that the line was laid according to specifications and requirements of the District. Tommy Woodruff, Superintendent is to contact Bob Bourque, developer of Malone Meadows, to get the name and address of the engineer who certified the job.**

**Joe Holland, Chairman, stated that the District needed to get out of laying line for subdivisions and let developers take care of this, and the District inspect these lines only. The District will get advise from attorney and engineer and address the concerns of cost for inspector and assurance for the District of the lines holding for the future. They will come up with a solution to best fit needs of all parties concerned and get back with the representatives of the concerned parties.**

**There was discussion on the tap fee rate increase. It was stated by Ford Stinson that Logan County was bidding out their services to be installed by contractors, and the District might consider doing this to cut the cost. Questions were raised about the cost of equipment used**

**for installing services and the time stated to install the service. After much discussion on ways to bring the cost down, Joe Holland, Chairman, stated the District had to charge what it costs to install a service, or they could be liable for mismanagement. He stated the District would withdraw the proposed tariff for tap fee increase. With everything that has been discussed kept in mind, the District will recalculate and send for approval again with Public Service Commission.**

**The District will contact Harold Wester to meet with the representatives after they have reached a decision on the areas of concern that have been discussed. This meeting will be before the February 28, 2000 meeting.**

**Billy Steele made a motion to adjourn. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Respectfully submitted,**

**Rebecca Wright, Recording Secretary**

**Joe Holland, Chairman**

**Billy Steele, Secretary**

## MINUTES OF THE FEBRUARY 18, 2000 MEETING

Joe Holland opened the meeting with Harold Wester, Bill Hill, Ford Stinson, and Jonathan Porter present at 5:00 p.m.

There was discussion on the new rate for meter tap fee. It was stated that the District had gone over the cost justification sheet and revised the rate to \$570.00. The decrease from the original rate was in equipment and inspection cost. It was stated that the District would not bid out meter installations. Brent Yonts instructed to approve tap fee tariff at the February 28, 2000 meeting, send to PSC for approval, and put in paper three times before effective date and three times after effective date.

There was discussion on fee for subdivision inspection. It was stated that the cost may be \$25 per inspection. The board will decide at the February 28, 2000 meeting.

The subdivision agreement that Brent Yonts prepared was discussed at this time. The document will serve as a temporary easement and when the subdivision is finished, a permanent easement will be given to the District.

Jonathan Porter brought up a discussion concerning the subdivision policy as to why, when the developer put the line in, no money for his cost is refunded as it is when the District puts the line in for the subdivisions. He also asked why he was not going to be refunded the amount he paid the District to tie his Deer Park Subdivision into the District. Brent Yonts reviewed the PSC tariff on the subdivision policy, and said it does not address tie in cost in the tariff. Jonathan stated he had talked to two different people from PSC, and there was a conflict as to whether he was to be refunded. He has filed a complaint to PSC concerning this. He stated someone from PSC told him there was money available to fund looping lines to better serve the District. He is to get back with the District to tell them who told him this.

There was discussion on the trailer parks. It was stated that Billy Jarvis's request to be given time to pay for his trailers was denied, and that he needed to finance the cost through the bank and not the District.

There was discussion on apartments, and Brent Yonts stated that if an apartment building was all under one roof the current rule is that one meter is

sufficient. A separate meter is needed for each building of the apartment complex. Brent is to prepare a tariff for separate meters in each apartment in the future, regardless if under one roof or more.

The District will make a final decision concerning the cost of laying line for \$3.50 at the February meeting.

Respectfully submitted,

Rebecca Wright, Recording Secretary

Joe Holland, Chairman

Billy Steele, Secretary

## **MINUTES OF THE FEBRUARY 28, 2000 MEETING**

**The regular meeting of the Muhlenberg County Water District Commission was opened at 4:15 by Joe Holland, Chairman.**

**There were several visitors present to speak in support of the Commission's decision to raise tap fee rates.**

**Keith Peterson spoke on behalf of the employees of the District to inform everyone of some of the costs of operating the 900 plus miles of line of the District. He stated that water is the cheapest utility we have. He said that he supported the Commission in their decision to raise the tap fee and commended them for not having to raise the rates in the past 22 years. Keith works as an electrician for the District and is aware of the cost to maintain the system.**

**Jeff Spurlin, employee of the District, was present to support the Commission in installing our own lines and meters to keep employees from losing their jobs. Jeff commented on how the District tries to get water back to people as soon as possible when there is a leak on a 6" main, and that someone is on call 24 hours a day to make sure all customers have water.**

**Donnie and Joanna McDonald were present to support the Commission in their decision to raise the tap fee rate. They said the District had used other means to create revenue in the past, and now an increase was necessary to continue operation.**

**Judge Kirtley spoke in appreciation of the District being able to hold down the rates for the past 22 years. He stated that 96% of the county was being served water, which is a very good record. Judge Kirtley said these facts are very commendable for management of the District, and all people in the county have been able to benefit from the low rates. He commended the Commission for allowing open communication in the last three meetings to resolve problems with concerned parties.**

**Joe Holland spoke in appreciation of Judge Kirtley supporting the District in their efforts to maintain costs. Joe stated that his position was the District needs to install their own water meters and lines since they give a lifetime guarantee, and they would want to see that they were installed properly.**

**Bobby Creager stated that the cost of a load of water has gone up drastically in the past 22 years, and it takes more funds to get good potable water. He stated that the District is losing money on installing new services.**

**Bobby Creager defended the position of the District in buying new trucks and equipment, because in order to do the best job in providing good potable water, the District must provide the proper equipment.**

**Billy Steele said it was with great concern that the Commission came to the decision of increasing the rates; however, insurance has gone up drastically in the past 22 years as have all other costs of operating a business. The fact of an increase was inevitable due to the rising cost of all other aspects of operation.**

**Drema Sweeney was present and voiced her support of the increase, due to the rising cost of operation. She said she works in the health field, and costs for having children has risen greatly in the past 22 years.**

**Kenny Sparks discussed the fact that lines that contractors had installed in the past require more maintenance and repair than the lines the District installs. Lines in Beechmont and Jernigan's Chapel Road have had numerous repairs, and they were installed by contractors.**

**Marilyn Woodruff commended the Commissioners for a job well done with little pay. She stated that the District operation was smooth and efficient.**

**Billy Jarvis was present to discuss buying meters for his trailer park at Luzerne. He is to put a separate meter to each of his trailers. He has 2 apartment buildings and is concerned that a ¾" meter will not give adequate pressure for the apartments. Herb Jackson is to check the pressure in this area to see if it is adequate and to check with Joe Henry, our engineer, to see if a ¾" meter will serve the apartments adequately. The District will put the line around to each trailer, and Billy will be responsible to run the line to each trailer from the meter.**

**There was discussion on the tap fee rate increase. Damon Talley and the Superintendent refigured the cost of a ¾ inch meter to be \$570.00. Bobby Creager made a motion to have tap fee for ¾" meter to be \$570.00 and any meter over this size to be at cost. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Tommy Woodruff stated that Clem Wethington of Kentucky Rural Water had been to the District to discuss ways to reduce their water loss. He suggested putting the District in pressure zones and comparing water pumped to water sold in specific areas to determine what area the loss is occurring**

**Bobby Creager made a motion to pay the bills. Billy Steele 2<sup>nd</sup> the motion Said motion carried.**

**Bobby Creager made a motion to approve the minutes of January 24, 28, and February 18, 2000 meetings. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Billy Steele made a motion to take up to \$10,000.00 out of the Depreciation Fund as needed and to put it back when funds are available. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**There was discussion on the Bruce Tucker Trailer Park situation. It was decided to let everything stay as is until the due process of the court proceedings.**

**There was discussion on water rate increase. It was decided to wait until the tap fee increase is approved until the District proceeds on water rate increase. A deposit increase will be included in this tariff.**

**There was discussion on purchasing software for bank draft for customers water bills. The cost will be approximately \$1,095.00 from Computer Resources and no more than \$50 a month for the bank expense. Bobby Creager made a motion to buy bank draft software. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Becky Wright was instructed to contact the Department of Insurance in Frankfort to get a list of insurance consultants. We are to try to retain one to write our insurance specifications for bidding our property insurance. The insurance bidding will be discussed at the March meeting ,and Becky is to have consultant list for approval.**

**Tommy Woodruff is to get information to Brent Yonts on a flat rate for sprinkler systems. Brent is to file with Public Service Commission for a tariff. Tommy is to check with Kentucky Rural Water on what sprinkler flat rates should be.**

**Billy Steele made a motion to accept the subdivision agreement that Brent Yonts prepared for contractors installing lines to a subdivision, and the District taking over in one year. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

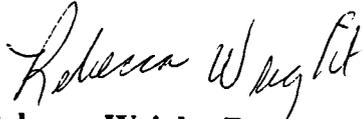
**Becky Wright was instructed to make 6 room reservations for the National Rural Water Convention in Kansas City, Missouri if no security deposit is required. She is also to make reservations for Tommy and James at the Kentucky Rural Water Management Seminar in April at Bowling Green.**

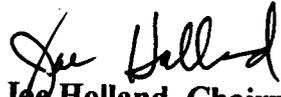
**There was discussion on trading in the backhoe. It was decided that we would wait another year before trading it in.**

**Billy Steele made a motion to hire Ruby Gaines to clean the office starting March 8, 2000. She is to be paid \$90 a week , and the District is to furnish the supplies. She will be put on the payroll with deductions taken out of her check. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried. Becky Wright is to contact her.**

**Bobby Creager made a motion to adjourn. Billy Steele 2<sup>nd</sup> the motion.  
Said motion carried.**

**Respectfully submitted,**

  
**Rebecca Wright, Recording Secretary**

  
**Joe Holland, Chairman**

  
**Billy Steele, Secretary**

## MINUTES OF THE MARCH 27, 2000 MEETING

The regular meeting of the Muhlenberg County Water District was opened by Joe Holland Chairman, at 4:00 p.m.

Billy Steele made a motion to approve the minutes of the February 28, 2000 meeting. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager made a motion to approve the bills for payment adding Western Kentucky Gas for \$169.95 and changing Woodall's Lawn and Garden from \$56.00 to \$40.00. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on the Bruce Tucker trailer park needing separate meters for each trailer. Tommy Woodruff is to contact PSC on taking the meter out for non-compliance with the new tariff.

Billy Steele made a motion to increase the deposit each customer is to pay for a total of 2 month's average bill when the water rate tariff is sent for approval. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

Becky and Tommy are to meet with C. A. Lawton Insurance and Eaves Insurance on the property and workman's compensation insurance and discuss findings at the April 24, 2000 meeting. Insurance to be bid in May.

There was discussion on a flat rate charge for sprinkler systems. Tommy Woodruff is to talk to Kentucky Rural Water Association and PSC on what other Districts are charging and report to board in April.

Brent Yonts reported that he had responded to the PSC complaint from Jonathan Porter. He stated that Jonathan should not be refunded on tie end for a subdivision, but should be refunded when the District installs lines for his subdivision. The response was sent to PSC and Jonathan Porter.

There was discussion on the health insurance. Several plans were reviewed because the current plan the District has with Blue Cross Blue Shield has been discontinued. After much discussion, Billy Steele made a motion to go with the Standard PPO plan with a \$15.00 drug card. The monthly cost to the District will be approximately \$11,400.00 a month, and it is still with Blue Cross Blue Shield. It was decided to go with Eaves Insurance of Greenville if the rates are the same. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

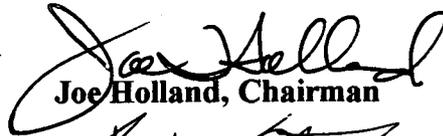
There was discussion on a report from Joanna McDonald that they had low pressure at the their new home. The pressure has been checked , and it was reported that they had 50 lb. at the meter so it is not the District's problem. The District will continue to monitor the pressure.

Billy Steele made a motion to adjourn, and Bobby Creager 2<sup>nd</sup> the motion. Said motion carried ,and the meeting adjourned at 6:30 p.m.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman



Billy Steele, Secretary

## MINUTES OF THE APRIL 24, 2000 MEETING

The regular meeting of the Muhlenberg County Water District was called to order by Joe Holland, Chairman at 4:00 p.m.

Bill Greenwood and Brenda Ellison of C. A. Lawton Insurance Company were Present to discuss the property insurance renewal for June.

Powderly Sewer System representatives were present to discuss the District disconnecting water meters for non- payment of the sewer. There was discussion that the District would disconnect water meters for non payment of sewer bills for a fee from Powderly. Powderly representatives present were Bobby G. Webb, Don Hancock, and T.H. Steele.

Billy Steele made a motion to agree in principle to enter into a contract with Powderly to furnish meter readings and disconnect water meters for non payment of sewer bills. After the contract is compiled, both parties will review and agree upon said contract. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager made a motion to approve the minutes of the March 27, 2000 meeting. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

Billy Steele made a motion to approve bills for payment adding Western Ky. Gas for \$111.52, National Rural Water \$25.00, Xerox \$122.00, and Dyna Systems \$118.99. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

There was discussion on Bruce Tucker trailer park situation. Tommy Woodruff reported that the police incident report was given to Ralph Vick, Attorney.

Damon Talley, attorney for the District presented a status report on the proposed rate increase. He distributed copies of various exhibits which he prepared for filing with the PSC. He recommended that the District request a rate increase in the approximate amount of 25 to 26 % as shown on proposed Exhibit 29, and to request permission to implement an automatic cost of living adjustment for future years. Following discussion, a motion was made by Commissioner Billy Steele and 2<sup>nd</sup> by Commissioner Bobby Creager to accept Mr. Talley's recommendation; to authorize him to prepare the rate increase application accordingly; and to authorize the Chairman, Joe Holland, to sign the application on behalf of the District. Said motion carried by a vote of 3 to 0. Attorney Talley plans to have the rate increase application ready for filing by no later than May 8, 2000.

Brent Yonts, District Council, advised the Commission on the status of the PSC complaint of Jonathan Porter. After discussion, it was decided to let Damon Talley file a response to PSC based upon the District's subdivision policy. It was further decided not to refund Jonathan Porter when new services are installed in the subdivision, based on the subdivision policy tariff.

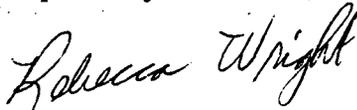
There was discussion on the Walmart sprinkler system situation. It was decided not to take any action at this time to file rate tariff. Tommy and the crew will monitor the situation for further response.

There was discussion on bidding out the insurance of the District. It was decided to put notice to accept bids in the paper May 3 and May 24, 2000. The bids are to be opened June 12, 2000, and received for study and evaluation. Bids to be awarded at June 26, 2000 meeting. It was decided to reduce the water tank values to \$1 per 1,000 gallon of tank. It was also decided that the bid specifications would include what rating the companies would have to be in order to submit a bid to eliminate undesirable companies from bidding.

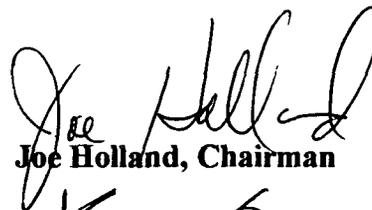
There was discussion on increasing the deposit required for customers to go on service. It was stated that it needs to increase to amount of 2 months average bill according to the new rates. Also, there was discussion of everyone having to pay deposit to secure their final bill being paid since we are writing off so many customer's bills yearly who move away owing final bill with no deposit to take care of it. This will be discussed at the next meeting.

Bobby Creager made a motion to adjourn. The motion was 2<sup>nd</sup> by Billy Steele. Motion carried. The meeting adjourned at 7:00. The next meeting will be Monday, May 22, 2000 at 4:00.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman



Billy Steele, Secretary

## MINUTES OF THE MAY 22, 2000 MEETING

The regular meeting of the Muhlenberg County Water District was called to order by Joe Holland, Chairman, at 3:40 p.m.

It was stated that in accordance with open meetings law, the press was notified by Becky Wright, Office Manager, that the regular meeting scheduled at 4:00 would be held at 3:30 for an emergency meeting of Commission to discuss personnel matters.

Billy Steele made a motion that the Commission go into executive session to discuss personnel matters. Bobby Creager 2<sup>nd</sup> the motion. The motion carried, and the Commissioners consisting of Joe Holland, Bobby Creager, and Billy Steele, Tommy Woodruff, superintendent, and Brent Yonts, attorney, went into executive session. Rockey McDonald, employee, was asked to come into the session.

Billy Steele made a motion to come out of executive session. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager made a motion to dispense with the reading of the minutes of the April 24, 2000 meeting. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

In regard to the personnel matter discussed in executive session, Chairman Joe Holland asked Tommy Woodruff, superintendent, to respond. Tommy Woodruff recommended that Rockey McDonald be suspended from work for 60 days without pay and to remain on probation for one year following his return to work. It was stated that the suspension and probation was due to insubordination of the employee.

Joanna and Donnie McDonald, parents of Rockey McDonald, were present at the meeting. At this time, they asked to speak in behalf of Rockey. The McDonald's felt the decision to suspend Rockey and put him on probation was unfair, and Joanna asked if she could read a summary of her complaint. The Commission gave her permission to do so. Joanna read a summary of their complaint to the District of inadequate pressure at their new residence and related to the Commission the efforts that had been made to date to resolve the problem. The McDonald's felt the disciplinary action taken against Rockey was a result of the efforts to resolve the pressure problem and other situations of the past in which they felt Rockey was falsely accused. They asked the Commission to reconsider their decision in the matter.

Bobby Creager made a motion to go back into executive session. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

**Billy Steele made a motion to come out of executive session. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager made a motion that Rockey McDonald be suspended for 30 days without pay for insubordination beginning immediately and returning to work on July 5, 2000. After returning to work, he will be on probation for one year. His insurance is to remain in effect during this period. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Bobby Creager and Billy Steele assured Donnie and Joanna McDonald that the disciplinary action was not a result of their actions to resolve the pressure problems or hearsay reports of the past; however, it was strictly because of insubordinate acts they personally witnessed on the part of Rockey as an employee. They emphatically stated that employees must show respect for the management of the District, and any action contrary to that will not be tolerated now or in the future. It was stated they hoped their action in this situation will prevent any future incidents such as this.**

**The Commission addressed the problem of the McDonald's lack of pressure by stating that pressure tests will be taken in a secured environment, and if these tests are not adequate to resolve the problem, they will consult their engineer.**

**Bobby Creager made a motion to approve the minutes of the April 24, 2000 meeting. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Billy Steele made a motion to approve bills for payment adding GWC Systems for \$45.00, Kentucky Utilities for \$1,390.33, and Uncle Lees for \$2.90. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Becky Wright reported that Damon Talley filed the rate increase with Public Service Commission, and it has been accepted and met all requirements of the Commission. Also, Damon responded on the Jonathan Porter complaint to Public Service Commission and has not gotten a response from Mr. Porter to date.**

**Tommy Woodruff reported that the Bruce Tucker situation is scheduled to go to trial on June 13, 2000.**

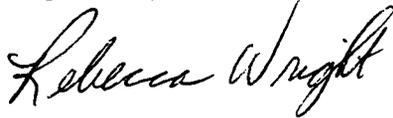
**Bobby Creager made a motion for Brent Yonts to prepare a tariff that all customers must pay a deposit with the District each time they apply for service in the amount of 2 months average water bill. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**There was discussion on bidding out insurance. It was stated that the prospective bidders must state in writing that they will bind the District's coverage to be effective June 26, 2000 on all coverage.**

Bobby Creager made a motion to hire Melva Owens to do the office cleaning.  
Billy Steele 2<sup>nd</sup> the motion. Said motion carried.

Bobby Creager made a motion to adjourn. Billy Steele 2<sup>nd</sup> the motion. Said  
motion carried. The next meeting will be June 26, 2000.

Respectfully submitted,



Rebecca Wright, Recording Secretary

  
Joe Holland, Chairman  
Billy Steele, Secretary

## **MINUTES OF THE JUNE 26, 2000 MEETING**

**The regular meeting of the Muhlenberg County Water District was opened at 4:00, Monday, June 26, 2000 by Joe Holland, Chairman.**

**Billy Steele made a motion to dispense with the reading of the minutes to discuss insurance. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**Insurance bids were reviewed at this time. The following bids were received on June 12, 2000 for general liability, commercial property, inland marine, business auto, workers compensation, commercial crime, public official's liability, employee dishonesty bond, and encroachment bond policies:**

**Eaves Insurance- \$22,727.00**

**C. A. Lawton Insurance- \$28,218.88**

**Brenda Ellison and Bill Greenwood of Lawton's Insurance and Stone Eaves of Eaves Insurance were present for discussion on insurance bids. Bobby Creager raised a question about a disclaimer on Eaves bid ,and Stone Eaves stated that the insurance policy would be the determining document for coverage rather than the bid proposal . Stone stated that disclaimers were standard for any insurance proposal. Bill Greenwood brought up two issues that would account for his proposal being higher. Bill stated that his insurance proposal on the package for autos, commercial property, and general liability was for a three year term and rates would be guaranteed for this period. He also stated that his bid was for guaranteed replacement cost instead of replacement. Stone Eaves told the Commission that Grange Insurance Company, the company he had based his quote on, would guarantee rates for 3 years, and he would give guaranteed replacement cost coverage.**

**Billy Steele made a motion to go into executive session to discuss the insurance quotes. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**The Commission returned from executive session ,and Bobby Creager made a motion to come out of executive session. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Joe Holland, Chairman, asked Becky Wright, Office Manager, and Tommy Woodruff, Superintendent if, after considering all the issues and clarifications on both proposals being guaranteed replacement cost and 3 year guaranteed rates, they felt the two proposals were comparing apples to apples as for as being the same coverage being proposed by each bidder. Becky and Tommy both stated that to the best of their knowledge the bids were for the same coverage. Bobby Creager made a motion to accept the low bid from Eaves Insurance Company provided they furnish the District with a written binder for coverage until policies are given to the District. Billy Steele 2<sup>nd</sup> the motion. Said motion carried.**

**Don Hancock and Bobby G. Webb, representatives of Powderly, were present to discuss the sewer at Powderly. It was decided that the city of Powderly will pay the District\$25.00 a month for meter readings of sewer customers. The City of Powderly will send out notices for disconnect when their customers fail to pay and contact the District for disconnection of said customers. The prevailing tariff charges for termination of water meter service and for re-installation of water meter service will be paid to the District by the city of Powderly. Brent Yonts, attorney for the District, will prepare an agreement and give to the District for proper signatures.**

**Billy Steele made a motion to approve bills for payment. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried.**

**There was discussion on the Bruce Tucker situation of stealing water . It was reported that he pleaded guilty to the charge. He is to pay \$5,000 fine, \$5,400 to the District for estimated water stolen, and he will be on probation for 2 years.**

**There was discussion on the water rate increase request that has been sent to Public Service Commission. It was reported that everything that was sent was acceptable, and PSC will be requesting more information at a later date.**

**Bobby Lewis was present to give the 1999 audit to the Commission. He stated that the District had an operating expense loss for the year and should curtail expenses as much as possible. The rate increase should help resolve the financial problem in the near future.**

**Tommy Woodruff, Superintendent, reported that water was being used at the Agricultural Center for a race track that Allen Adcock is operating. Brent is to prepare a certified letter to Mr. Adcock informing him he must pay for usage of the water. Bobby Creager is to discuss this situation with Judge Kirtley this week prior to sending the letter.**

**There was discussion on Donnie McDonald's pressure. It was reported that his pressure at his meter is adequate, and that Public Service Commission is to make a decision as to what is best to do in the situation. Tommy Woodruff, Superintendent, is to talk to Kentucky Rural Water for recommendations. It was stated that the District could not begin putting in-line booster pumps when the pressure is 30 lbs. or more at the meter.**

**Becky Wright asked permission to go to a Microsoft Office Seminar in Evansville on July 27, 2000. The cost will be \$59.00 for the seminar. The Commission said that she could attend, and the District will pay for the expense.**

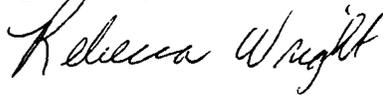
**Becky Wright was instructed to make reservations for 5 rooms at the Galt House East for the Kentucky Rural Water Association Annual Convention. Billy Steele, Joe Holland, Tommy Woodruff, James Hill, and Carl Jackson will possibly attend.**

**There was discussion on absenteeism. Becky Wright, Tommy Woodruff, James Hill, and Carl Jackson are to review the absenteeism policy that Brent Yonts prepared and recommend to the Commission**

at the July meeting what it should contain. Tommy Woodruff is to be given the right to discipline and terminate employees. An appeal would go through the Commission. Tommy Woodruff is to study different personnel policies concerning discipline. He is to check with Kentucky Rural Water. The District needs to update their personnel policy accordingly. Reporting illegal hookups should be included in the personnel policy.

Billy Steele made a motion to adjourn. Bobby Creager 2<sup>nd</sup> the motion. Said motion carried and the meeting adjourned at 6:15 p.m. The next regular meeting will be July 24, 2000 at 4:00 at the office.

Respectfully submitted,



Rebecca Wright, Recording Secretary



Joe Holland, Chairman



Billy Steele, Secretary

Q35. Explain why, despite large operating losses, Muhlenberg District has not requested a general rate adjustment, other than for increases in the cost of purchased water, since January 1985.

RESPONSE: The District believes that its last general rate increase occurred on January 28, 1987 (PSC Case No. 9539) rather than in January 1985. Nevertheless, the District acknowledges that it should have applied for a general rate increase in 1996 or 1997.

For the past few years the District has explored the possibility of building its own water treatment plant so that it would not be dependent upon Central City for its supply of water. The District's consultants have estimated that the District could produce its own water cheaper than it could purchase it from Central City. The District planned to combine a rate increase with its application to the PSC for a Certificate of Convenience and Necessity to construct its own water treatment plant. Despite repeated efforts to obtain funding for the proposed water treatment plant, the District has, thus far, been unsuccessful. In 1999 the District realized that it could no longer delay a rate increase.

WITNESS: Joe Holland, MCWD

Q36. For each year since January 1, 1993, identify the persons who were members of Muhlenberg District's Board of Commissioners.

RESPONSE:

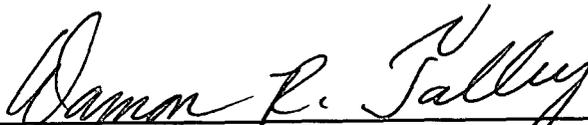
Joe Holland:	1993-Present
Bobby G. Creager:	1993-Present
James C. Spurlin: (Died September, 1999)	1993- September, 1999
Billy Steele:	9/23/99-Present

WITNESS: Rebecca Wright, MCWD

This 4<sup>th</sup> day of AUGUST, 2000.

Respectfully submitted,

**DAMON R. TALLEY, P.S.C.**

  
\_\_\_\_\_  
**DAMON R. TALLEY, ATTORNEY FOR  
MUHLENBERG COUNTY WATER  
DISTRICT  
P. O. BOX 150  
112 N. LINCOLN BLVD.  
HODGENVILLE, KY 42748  
(270) 358-3187 FAX (270) 358-9560**

**VERIFICATION**

The foregoing Responses are true and correct to the best of my knowledge and belief.

**MUHLENBERG COUNTY WATER DISTRICT**

BY: Tommy Woodruff  
**TOMMY WOODRUFF, SUPERINTENDENT**

STATE OF KENTUCKY

COUNTY OF Muhlenberg

The foregoing verification was subscribed and sworn to before me this 31 day of July, 2000 by **TOMMY WOODRUFF**, in his capacity as Superintendent of **MUHLENBERG COUNTY WATER DISTRICT**.

Rebecca Wright  
NOTARY PUBLIC, STATE AT LARGE

MY COMMISSION EXPIRES: 4-22-04

BEFORE THE  
KENTUCKY PUBLIC SERVICE COMMISSION

**FILED**

CASE NO. 99-512

**NOV 30 2000  
PUBLIC SERVICE  
COMMISSION**

RE: MUHLENBERG COUNTY WATER DISTRICT

Pursuant to notice duly given, the above styled matter came to be heard November 21, 2000, at 9:30 a.m. in Hearing Room Number Two of the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky; The Honorable Paul Shapiro presiding.

**VIVIAN A. LEWIS**  
COURT REPORTER - PUBLIC STENOGRAPHER  
101 COUNTRY LANE  
FRANKFORT, KENTUCKY 40601  
(502) 695-1373

BEFORE THE  
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CASE NO. 99-512

RE: MUHLENBERG COUNTY WATER DISTRICT

APPEARANCES:

Hon. Paul Shapiro  
Hearing Officer  
PUBLIC SERVICE COMMISSION

Hon. Gerald Wuetcher  
Hon. Doug Hendrix  
Legal Counsel  
PUBLIC SERVICE COMMISSION

Hon. Damon Talley  
P.O. Box 150  
112 N. Lincoln Blvd.  
Hodgenville, Kentucky 42748  
Legal Counsel  
MUHLENBERG COUNTY WATER DISTRICT

Hon. David Edward Spenard  
Assistant Attorney General  
1024 Capital Center Drive, Box 2000  
Frankfort, Kentucky 40602-2000  
PUBLIC SERVICE LITIGATION BRANCH

HEARING OFFICER SHAPIRO:

This is a hearing before the Kentucky Public Service Commission in the matter of the application of the Muhlenberg County Water District for a general rate adjustment pursuant to the provisions KRS 278.030 and 807 KAR 5:001. The hearing was noticed by Order of the Commission on August 4, 2000, and the parties are here, present and ready to proceed. Can we have appearance of counsel, first, for the applicant?

MR. TALLEY:

Yes. My name is Damon Talley from Hodgenville, Kentucky, attorney for the applicant Muhlenberg County Water District.

HEARING OFFICER SHAPIRO:

What is your address Mr. Talley?

MR. TALLEY:

It's P.O. Box 150, Hodgenville, Kentucky 42748.

HEARING OFFICER SHAPIRO:

And for the intervenor Attorney General?

MR. SPENARD:

Yes, sir. David Edward Spenard appearing on behalf of A. B. Chandler, III, Attorney General.

HEARING OFFICER SHAPIRO:

Your address?

MR. SPENARD:

1024 Capital Center Drive, Frankfort, Kentucky  
40601.

HEARING OFFICER SHAPIRO:

And for the Commission Staff?

MR. WUETCHER:

On behalf of the Commission Staff, Gerald Wuetcher  
and Doug Hendrix.

HEARING OFFICER SHAPIRO:

Are there any preliminary matters that the  
Commission needs to address at this time?

MR. WUETCHER:

Your Honor, at this time--we have been advised by  
counsel for the applicant that notice for the  
hearing was not published and after some  
discussion between the parties and Commission  
Staff we have agreed to the following: Number one  
would be that the current hearing should be  
continued to a date in December. The parties have  
agreed to advise Commission Staff of the mutually  
convenient dates and that we would attempt to  
contact the Executive Director's office and obtain

a hearing date for sometime in December. That within fourteen days of today the applicant will advise the other parties and Commission Staff and the Commission whether it intends to proceed with those portions of the application that relate to rate indexing, that Commission Staff will provide to the parties within three working days before the hearing a proposed tariff sheet, tariff sheets, which would implement the rate indexing proposal which the Commission Staff commented on favorably in its Staff Report. And, finally, the parties have agreed that if the hearing is held that the briefing schedule in this case should be amended from the current date, which I believe is January 5th, to permit the filing of briefs by no later than January 31 of next year.

HEARING OFFICER SHAPIRO:

And all parties are agreed upon that?

MR. TALLEY:

Yes. Very well stated.

MR. SPENARD:

Yes.

HEARING OFFICER SHAPIRO:

Okay, then, an Order will be entered directing

that the case proceed in accordance with the parties agreement, a hearing date will be established and the parties will be given notice. And I assume that the Muhlenberg Water District then will notify the public in accordance with the Regulations and Statutes.

MR. TALLEY:

Yes, Your Honor. Thank you.

MR. SPENARD:

Your Honor, one point, so the record is clear, is that during the recitation the statement was made that the Staff will provide parties tariff sheets. And we are not waving any objection on that ground, we just understand that's what the Staff in going to do.

HEARING OFFICER SHAPIRO:

Okay. Anything further? Nothing further, the hearing is adjourned.

(OFF THE RECORD)

CERTIFICATE

STATE OF KENTUCKY )  
COUNTY OF FRANKLIN)

I, VIVIAN A. LEWIS, a Notary Public in and for the state and county aforesaid, do hereby certify that the foregoing was taken by me at the time and place and for the purpose previously stated in the caption; that the hearing was first taken down in shorthand by me and later transcribed, under my direction, and that the foregoing is, to the best of my ability, a true, correct and complete record of the hearing in the above styled cause of action.

WITNESS my hand and seal of office at Frankfort, Kentucky, on this the 27th day of November, 2000.

  
\_\_\_\_\_  
VIVIAN A. LEWIS  
Notary Public  
Kentucky State-at-Large

My commission expires: 7-23-01

*Merlan A. Lewis*

COURT REPORTER - PUBLIC STENOGRAPHER  
101 COUNTRY LANE  
FRANKFORT, KENTUCKY 40601

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**FILED**

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**NOV 30 2000**

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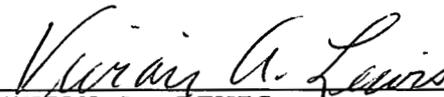
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VIVIAN A. LEWIS  
Notary Public  
Kentucky State-at-Large

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*Marian F. Lewis*

COURT REPORTER - PUBLIC STENOGRAPHER  
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